# TOBU RAILWAY CO.,LTD.

Annual Report 2015

For the year ended March 31, 2015

TOBU Group

# Profile

The Tobu Group consists of TOBU RAILWAY CO.,LTD. and its subsidiaries and affiliates. The core business of the parent company founded in 1897 is operating a network of private railway lines that extends across Tokyo, Chiba, Saitama, Tochigi, and Gunma prefectures of the Kanto region.

The main lines, which originate in Asakusa, eastern Tokyo, run through eastern Saitama Prefecture and extend to Tochigi, Gunma, and Chiba prefectures, including the trunk lines (the TOBU SKYTREE Line (Isesaki Line), Nikkō Line, and the TOBU URBAN PARK Line (Noda Line)) and branch lines. They can be broadly divided into the TOBU SKYTREE Line (the southern portion of the Isesaki Line) and the TOBU URBAN PARK Line (Noda Line), which primarily serve commuters and students, and the Nikkō Line and northern portion of the Isesaki Line that primarily serve tourists and businesses.

The Tōjō Line, which starts in Ikebukuro, downtown Tokyo, runs northwest through central Saitama Prefecture and mainly carries commuters and students. Development in areas along the line has been proceeding smoothly.

Tobu Railway's network has a total operating length of 463.3 kilometers, making it the second-longest private railway network in Japan, excluding Japan Railway companies. The Company manages 203 stations, and its average daily passenger count is 2.42 million.

Our development business is categorized broadly into the leasing, real estate subdivision, and leisure divisions. The Company also engages in integrated development businesses to improve the urban environment across the entire region.

Tobu Group companies, which operate in five broad industrial sectors — transportation, leisure, real estate, retail distribution and other — continue to grow in concert with the region. Working in collaboration with Tobu Railway, they offer high-value-added products and services to meet the needs of customers along the railway lines.

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**Attention regarding forward-looking statements**

The reader is advised that this report contains forward-looking statements, including statements relating to the Company's future policies and strategies, and estimates of future business development. As opposed to statements of historical fact, these constitute estimates or projections made by the Company's management on the basis of facts known to them as of the time of writing, and actual results may therefore differ substantially from such statements, due to a wide variety of possible risk factors. Page 12 contains a list of the principal categories of risk to which the Company's business operations are subject.

# Message from the President

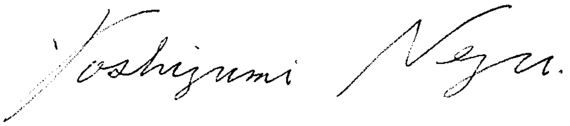
During the fiscal year under review, the Japanese economy saw an improvement in corporate earnings and employment conditions and was on a modest recovery track. However, due to weak consumer spending caused by a reaction to last-minute demand associated with the consumption tax increase together with other factors, the future remains uncertain.

Amid these circumstances, recognizing that safety is the basis for all its businesses, the Tobu Group set its sights on sustaining growth into the future under the Tobu Group Medium-Term Business Plan 2014–2016. The Group aggressively conducted business activities in each business area, including taking steps to generate a nonresident population, and also to expand its services to foreign tourists visiting Japan.

As a result, in the fiscal year under review, revenues from operations were ¥583,269 million (US$4,860,575 thousand; a decrease of 1.7% year on year), operating income was ¥53,159 million (US$442,992 thousand; a decrease of 5.1%), and net income was ¥30,654 million (US$255,450 thousand; a decrease of 2.8%).

Regarding the outlook for the economy, despite being on a recovery track due in part to the effects of various economic policies, owing to concerns about sluggish consumer spending and a downturn in overseas economies, the future remains uncertain.

Given these conditions, the Tobu Group, as an operator in the railway business—an important part of the social infrastructure—is fully committed to not only securing safe and stable train services, but also to supporting the lives of customers along the Tobu Railway lines, and will make every effort to support the further development of regional economies and to improve the comfort and convenience of people's lives.



Yoshizumi Nezu
*President and Representative Director*

## Our Current Situation

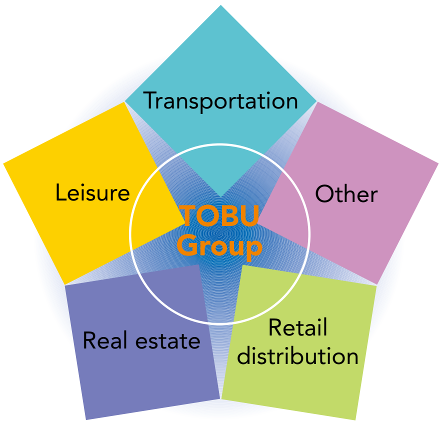
In addition to the main railway network and its characteristics summarized in the profile above, Tobu Railway engages in the development businesses outlined in the following paragraph.

In our leasing business, we are continuing to construct shopping malls and similar retail facilities, and are moving ahead with effective utilization of land under elevated tracks and land that is unused or under-utilized. Particularly in areas alongside our railway lines, the Group is leasing a large number of sites for such purposes as stores, office buildings, houses, and warehouses. In particular, in TOKYO SKYTREE TOWN with the commercial facility TOKYO SOLAMACHI®, we transmit new lifestyles and a charm that is only possible in downtown Tokyo, and we lease the office facility TOKYO SKYTREE EAST TOWER®.

In addition, we position our railway stations as our most important management resource due to their power to draw customers and, consequently, attract tenants. Spaces inside our station buildings are leased or utilized for business purposes, and stations and railway cars are used for advertising.

In our subdivision business, we utilize the substantial land owned in areas along our railway lines and land in other areas. This includes the sale and development of homes and land, and the independent and joint construction and sale of condominium units.

In the leisure business, the parent company directly manages the Courtyard® by Marriott® Tokyo Ginza Hotel and the Tobu Hotel Levant Tokyo in the center of Tokyo, and in developing its leisure business, the Company works in close corporation with each of its member companies.




### Group Companies

In the transportation business, Group companies engage in such operations as bus services including long-distance bus services, taxi services, freight trucking, cash collection and delivery services, and the operation of trunk rooms and secure storage facilities.

In the leisure industry, in addition to the TOKYO SKYTREE®, we operate the Tobu Zoological Park which has a zoo, amusement park, swimming pools, and other facilities. We also operate TOBU WORLD SQUARE, a facility that has exquisite miniature renderings of historical sites all over the world. Group companies manage enterprises in such fields as travel, city and resort hotels, inns, skiing facilities, golf courses, sports clubs, rent-a-car businesses, ropeways, and sightseeing vessels.

In the real estate industry, we are involved in real estate leasing, real estate brokerage, and the car parking lot and bicycle parking lot businesses.

In retail distribution, there are Tobu department stores in Ikebukuro, Funabashi, Utsunomiya, Ohtawara, Tochigi and TOKYO SOLAMACHI, and we own TOBU STORE CO.,LTD., which operates a chain of supermarkets and is listed on the first section of the Tokyo Stock Exchange.

Other businesses include construction, building and facility management, construction materials supply, and heating supply systems.

# Principal Subsidiaries and Affiliates

The Group comprises TOBU RAILWAY CO.,LTD., 91 subsidiaries, and 13 affiliates. Their relation to major businesses and segments is as follows.

## (1) Transportation (37 firms)

Railway business: The Company; Jomo Electric Railway Co.,Ltd.[1]
Bus and taxi business: ASAHI Motor Corporation[1];
TOBU BUS CO.,LTD[1]
Freight business: TOBU TRANSPORTATION CO.,LTD.[1]; TOBU DELIVERY CO.,LTD.[1]
31 other firms

## (2) Leisure (27 firms)

Amusement parks and tourism: Tobu Leisure Planning Co.,Ltd.[1]
Sports: Tobu Kogyo Co.,Ltd.[1]
Travel: TOBU TRAVEL CO.,LTD.[1] ;
TOPTOUR CORPORATION[1]
Hotels: The Company; Tobu Hotel Management co.,LTD.[1]
Food: Tobu Foods Service Co.,Ltd.[1]
SKYTREE business: TOBU TOWER SKYTREE Co.,Ltd.[1]
19 other firms

## (3) Real estate (5 firms)

Real estate leasing: The Company;
TOBU Properties co.,Ltd.[1]
Real estate subdivision: The Company
SKYTREE TOWN: The Company;
TOBU TOWN SOLAMACHI CO., LTD.[1]
2 other firms

## (4) Retail distribution (20 firms)

Retail: TOBU DEPARTMENT STORE CO.,LTD.[1];
TOBU UTSUNOMIYA DEPARTMENTSTORE CO.,LTD.[1]; TOBU STORE CO.,LTD.[2]
17 other firms

## (5) Other (18 firms)

Construction: TOBU CONSTRUCTION Co.,Ltd.[1];
Tobu Yachida Construction Co.,Ltd.[1]
Other businesses: Tobu Building Management Co.,Ltd.[1];
Tobu Energy Support Co., Ltd.[1]
14 other firms

Notes:
1. Consolidated subsidiary.
2. Affiliate according to the equity method.

TOBU RAILWAY CO.,LTD. is counted multiple times in the above segment breakdown.

## Future Measures

In order to strengthen the management base over the medium to long term and further enhance corporate value, we will focus on boosting the profitability of our existing businesses including TOKYO SKYTREE TOWN, and also take steps to create businesses that will be the sources of revenue moving toward 2020, with the aim of sustaining future growth.

In the railway business, based on changes to the social structure and other factors, the Group will create and expand railway demand by providing high-quality transportation services that meet the needs of our customers, including by further reinforcing the safety of our transportation system and by making full use of the areas alongside our railway lines.

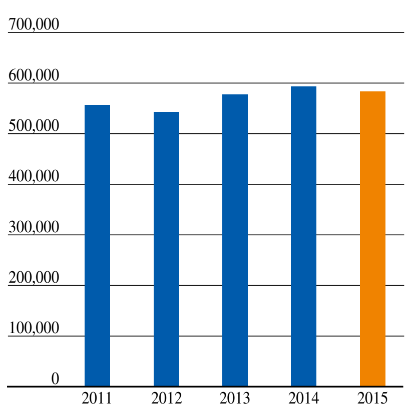
Also, to continue to realize “prosperity” and “vitality” at TOKYO SKYTREE TOWN, which is a symbol of Japan as a nation founded on tourism, we will continue to actively implement a range of sales promotions in order to maintain and increase visitor numbers, thereby continuously strengthening our earnings capabilities. In addition, in deploying our tourism strategy, we are fully utilizing existing tourism resources in areas alongside our railway lines including TOKYO SKYTREE TOWN and the World Heritage Site Nikko. Furthermore, in collaboration with the local governments in the areas alongside our lines, we are implementing measures to attract customers not just from within Japan, but from all over the world. In this way, we are aiming to revitalize the areas alongside our lines and their regions, which is resulting in an increase in foreign tourists visiting these areas.

## Basic Indicators

Transportation / Leisure / Real estate / Retail distribution / Other / Administration

### TOBU Group Revenue

(Millions of yen)



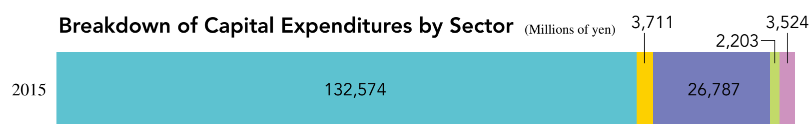

### Number of Employees


### Number of Group Companies


Note: TOBU RAILWAY CO.,LTD. is counted twice or more in the above graph.

### Breakdown of Capital Expenditures by Sector

(Millions of yen)



# Group Topics

## Tobu Group Medium-Term Business Plan 2014–2016

We established the Tobu Group Medium-Term Business Plan 2014–2016 in April 2014. Under this plan, we will seek to achieve sustained growth by focusing on the following four basic strategies:

1. Improving convenience and safety in our railway business
2. Continuously strengthening the earnings capabilities of TOKYO SKYTREE TOWN
3. Improving lifestyle value alongside our lines
4. Developing a tourism strategy

We also established targeted management indicators on a consolidated basis for fiscal 2016, which is the final year of the plan. Specifically, we are aiming for operating income of ¥65 billion (US$541,667 thousand), net income of ¥32 billion (US$266,667 thousand), a ratio of operating profit to sales in excess of 10%, and a ratio of interest-bearing liabilities to EBITDA of approximately 7.

## TOKYO SKYTREE TOWN Project (formerly the Narihirabashi/Oshiage Development Project)

TOKYO SKYTREE TOWN, which has TOKYO SKYTREE at its core, held its grand opening on May 22, 2012 in an area which covers approximately 6.4 hectares, adjoins Asakusa, Ueno, Ryogoku and other expansive areas that attract customers, and provides highly convenient transportation including good access to airports and the intersection of four railway networks.

TOKYO SKYTREE TOWN connects TOKYO SKYTREE Station and Oshiage Station, is approximately 400 meters long from east to west, covers 3.69 hectares, and in addition to the TOKYO SKYTREE, is comprised of the TOKYO SOLAMACHI commercial facility, which offers entertainment and cultural features; the TOKYO SKYTREE EAST TOWER office facility; and disaster-prevention functions, among other features designed to create a prosperous urban development in collaboration with the surrounding areas, contributing to the further revitalization of the community.


While safety is always the first priority in our railway operations, we are also taking numerous steps to attract more customers.

In terms of providing safe transportation, we made progress in elevating the tracks in the vicinity of Takenotsuka Station and between Shimizu-koen and Umesato. To further improve the safety of our railway operations, with our New Operations Security System between Kawagoe and Ogawa-machi, we began using an automatic train control (ATC) system that controls train operations from the position of the preceding train. Between Asakusa and Tatebayashi/Shin-tochigi on the Kameido Line and on the Daishi Line, we installed operation management systems, thus completing the centralization of signal control and the integration of train position information of these train lines. As a safety measure on train platforms, we started using a platform door (a moveable platform barrier) at Kashiwa Station. As disaster prevention measures against large-scale earthquakes, we conducted seismic reinforcement work on station buildings and elevated bridges and repaired and improved long bridges. We also continued to implement a wide range of safety-related training programs for our employees. In addition to holding evacuation guidance drills at stations and temporary train-stoppage drills, we held comprehensive emergency training, including training on how to prevent escalation in the event of an accident at a railroad crossing.

In marketing, to revitalize the area alongside the Noda Line and to make it familiar to our customers, we introduced the nickname TOBU URBAN PARK Line for the Noda Line. With the Tojo Line, which marked its 100th anniversary of operation, we took steps to further revitalize the area alongside the train line by holding commemorative events and other measures. In addition, to draw attention to various appealing areas along the train lines, we operated “character trains” styled with the character mascots of municipalities located along our train lines. In order to promote the use of our railway by foreign tourists, we tried to increase their passenger numbers through sales of the KAWAGOE DISCOUNT PASS. Moreover, as an evolution of our business that leverages popular manga and anime characters in areas along our train lines, we implemented initiatives that brought Tobu Railways psychologically closer to those areas by holding stamp rallies and other events connected with popular anime characters. With Omiya Station as a base facility and in conjunction with the opening of the Hokuriku Shinkansen (bullet train), we began operating a temporary rapid-transit train between Omiya and Asakusa with the goal of attracting customers to tourist sites along our railway lines, including to TOKYO SKYTREE TOWN from Hokuriku, Joshin’etsu, and Tohoku. In response to seating demand by customers going home on Fridays, we endeavored to increase revenues and improve customer convenience by operating two temporary trains: the *TJ Liner* and the *Limited Express Kirifuri*.

In the bus and taxi business, TOHOKU KYUKO BUS Co.,Ltd. built a new *Kimasshi-go* high-speed bus that connects the Tokyo metropolitan area and Kanazawa. Kan-Etsu-Koutsu co.ltd. began operating the “Ikaho — Shimaonsen Shuttle via Tomioka Silk Mill,” a high-speed bus that passes by the Tomioka Silk Mill, a World Heritage Site. In cooperation with the railway industry, we promoted its use by developing a route that connects with the *Limited Express Ryomo-go*. Further, TOBU BUS CENTRAL CO., LTD began driving along a route to Tobu Hotel Levant Tokyo, a part of the Skytree Shuttle® Tokyo Station Line. TOBU BUS WEST CO.,LTD took steps to increase revenue by establishing a new route that connects large shopping malls and Tsuruse Station.


In the transportation business overall, although revenues from operations were ¥211,961 million (US$1,766,342 thousand; a decrease of 2.2% year on year) due to a reaction to the last-minute demand associated with the consumption tax increase, operating income was ¥30,941 million (US$257,842 thousand; an increase of 2.9%) owing to efficient business expansion.


In the SKYTREE business, TOBU TOWER SKYTREE Co.,Ltd. began sales of the *Fast Skytree Ticket*, which grants faster admission to international visitors with a limited time to stay in Japan, and this further enhances our promotion system for attracting foreign tourists. In addition, we actively carried out activities to attract foreign tourists by participating in international travel fairs held in Hong Kong, Taiwan, and Thailand. We also held seasonal events throughout the year and lit up the tower with various types of attractive lighting to generate a larger crowd turnout. We began sales of the TOKYO SKYTREE TEMBO DECK® time- and date-designated tickets at certain convenience stores, thereby expanding our sales channels.

In the travel business, TOPTOUR CORPORATION and TOBU TRAVEL CO.,LTD. attracted many domestic and overseas customers to tourist sites along our railway lines such as the TOKYO SKYTREE along with the Nikko and Kinugawa districts, thereby contributing to the revitalization of areas along our lines and to the growth of Group revenues. To further boost sales for group travel and to foreign tourists, we merged TOPTOUR CORPORATION and TOBU TRAVEL CO.,LTD. on April 1, 2015 and launched the new company TOBU TOP TOURS CO.,LTD.

In the hotels business, Courtyard® by Marriott® Tokyo Ginza Hotel and Narita Tobu Hotel Airport deepened their cooperation with overseas travel companies and increased the number of foreign hotel guests, partly due to the benefits of the low yen, thereby increasing sales.

In the amusement parks and tourism business, Tobu Zoological Park presented illuminations with lights flashing rhythmically in time with music. We also began providing live footage of the four cubs born to a white tiger in January 2015. TOBU WORLD SQUARE Co., Ltd. opened the Historium Theater Yui, a video hall that serves as the introduction of exhibitions, and worked hard to attract customers.

In the leisure business overall, despite unseasonable weather and thanks to the revenue contribution throughout the year of TOPTOUR CORPORATION, which became a subsidiary in fiscal 2014, revenues from operations were ¥79,613 million (US$663,442 thousand; an increase of 5.9% year on year) and operating income was ¥7,999 million (US$66,659 thousand; a decrease of 33.8%).


In the SKYTREE TOWN business, TOKYO SOLAMACHI® held a Chinese New Year Good Luck Campaign for foreign tourists, as well as various events including the “Let’s Look Up” Beer Garden and “Projection Mapping” that attracted customers and secured revenue. Since opening in September, TOKYO SKYTREE TOWN has had more than one hundred million visitors.

In the real estate leasing business, in order to effectively utilize our asset holdings, secure stable income, and raise value along our train lines, we opened a completely refurbished the first-floor food zone at VARIE in Shin-koshigaya Station and started renovating stores on the Narimasu Station Bridge. In addition, we built new stores under the elevated railway tracks at Umejima Station and Gotanno Station and worked to enhance the station and surrounding facilities in addition to increasing revenue.

In the real estate subdivision business, with the objectives of increasing the value and the residential population along our railway lines, we launched sales of Solaie Shimizu Koen Urban Park Town (Noda City) and Solaie Kashiwa Toyoshiki condominiums (Kashiwa City). We also conducted sales of condominiums such as the Brillia Tokiwadai Solaie Residence (Itabashi Ward) and land in Tsukinowa, Namegawa Town and elsewhere.

In the real estate business overall, although revenue from operations were ¥56,809 million (US$473,408 thousand; a decrease of 11.1% year on year) due to a reduction in condominium unit sales, operating income was ¥9,511 million (US$79,258 thousand; an increase of 17.8%) due to the reduction of our rent following the acquisition of assets including the Ikebukuro Station building, which we had been renting.


In the retail distribution business, TOBU DEPARTMENT STORE CO.,LTD. increased the number of duty-free counters for foreign tourists in the Ikebukuro store and enhanced services by opening an information counter for foreign tourists in time for the Chinese New Year. We also extended the business hours of the Funabashi store to promote store use by customers returning home from work. TOBU UTSUNOMIYA DEPARTMENTSTORE CO.,LTD. opened the Tochigi branch within the Tochigi Town Hall. In addition, we worked to draw more customers to stores by holding various events in each store. TOBU CARD BUSINESS CO., LTD. tried to win more new TOKYO SKYTREE Tobu Card PASMO members by holding a campaign offering extra points for new members and by starting a service for converting points into products on its website.

In the retail distribution business overall, due to sluggish consumer spending after the consumption tax increase, revenues from operations were ¥205,056 million (US$1,708,800 thousand; a decrease of 1.3% year on year) and operating income was ¥634 million (US$5,283 thousand; a decrease of 57.3%).

## Other

In the construction business, TOBU CONSTRUCTION Co.,Ltd. received an order to build a new resort hotel in Nikko, while Tobu Yachida Construction Co.,Ltd. received an order to build a new art museum in Sumida Ward.

In other businesses, Tobu Building Management Co.,Ltd. received an order for the facility management of a large hotel in Minato Ward and worked to increase revenue. TOBU ENERGY MANAGEMENT CO.,LTD. completed construction of solar power generation plants at five locations, including in Namegawa Town (Shinrin Koen Kenshu-ku, south side land), and started selling electricity.

In other businesses overall, due to a change in the fiscal years at some consolidated subsidiaries, revenues from operations were ¥95,635 million (US$796,958 thousand; a decrease of 0.4% year on year) and operating income was ¥4,701 million (US$39,175 thousand; a decrease of 9.9%).

Solar power generation (mega-solar) business

# Corporate Governance

## Basic Corporate Governance Policies

In order to repay the trust placed in Tobu Railway by its shareholders and many other stakeholders, the Company has an obligation to establish a fair and transparent system of corporate governance. Hitherto, internal management control has been carried out by our Board of Directors and Audit & Supervisory Board, but from here onward, we intend to further enhance the performance of this system with respect to the proactive disclosure of corporate information in a timely and appropriate manner. We will work to materialize the level of corporate governance expected of us by society as a whole through the maintenance of high ethical standards of behavior and legal compliance, and by dealing in good faith with all our customers and other business counterparties.

## Corporate Governance

### (1) Corporate governance structure

The Company's Board of Directors consists of 15 directors, of whom 2 are outside directors. The Board's responsibilities are to make decisions on issues of importance to the management of the Company, after due consideration and debate, and also to exercise supervisory functions over the execution of day-to-day business operations. In addition, the Board of Managing Directors, comprising directors of the Company with the rank of Managing Director or above and standing audit & supervisory board members, assists the Board of Directors by examining important issues, including those to be placed on the agenda for discussion by the Board of Directors, and by sharing with the Board information on significant matters gleaned from the actual conduct of business operations.

In an effort to ensure the reliability of the internal control system, establish corporate ethics, and ensure that its officers and all its employees are fully aware of compliance, the Company has been promoting compliance management, primarily by setting out specific guidelines for day-to-day activities and developing training systems. It is also seeking to develop a compliance management system on a Group level. The Company has established guidelines and organizations for its contingency management, and is in the process of creating an effective contingency management system. To prepare for the possible materialization of legal risks, the Company has developed a system in which advice can be sought from corporate lawyers through the General Affairs Department's Legal Center. The Company is resolved to further strengthen its legal functions. To ensure the proper operation of the Tobu Group under the Group companies' management rules, the Group business division that is specifically responsible for the management of subsidiaries and other companies manages and supports the business execution of subsidiaries and other companies. To further strengthen Group governance, Group management policies are communicated and management information is shared by holding Tobu Group Corporate Meetings and other meeting on a regular basis. In cooperation with its subsidiaries and other companies, the Company has developed a compliance management system for the entire Group. Four employees below the rank of general manager are appointed as the officers in charge of Group company audits in the administrative division and conduct internal audits based on the audit plan. In addition, to raise the levels of fairness and transparency of the Group's management, the Company conducts regular investor relations events, such as results briefings for analysts and tours of facilities in areas served by our railway stations. It also provides extensive corporate information on its website, and will continue to pursue a policy of openness in communications with investors and the general public in a prompt and appropriate manner.

Regarding audits conducted by the audit & supervisory board members of the Company, each of the five audit & supervisory board members, of whom three are outside audit & supervisory board members, attends meetings of the Board of Directors. In addition, in accordance with auditing policies, auditing plans and the delegation of auditing operations, which have been drawn up to conform to the stipulations of the Auditing Standards for Audit & Supervisory Board Members, which were drawn up and published by the Audit & Supervisory Board, the audit & supervisory board members attend important meetings and peruse all documentation relevant to important management issues. The audit & supervisory board members also conduct audits of Tobu Group companies focused on specific issues, interview directors and general managers, hold meetings of audit & supervisory board members from all Group companies, attend analyst meetings, and investigate the business performance and financial situation of the parent company and other members of the Group. In these ways, the audit & supervisory board members evaluate the performance of Company directors' duties, giving due consideration to the principles of risk management. The results of these evaluations are reported at meetings of the audit & supervisory board that are held on a regular basis. Through deliberations in the meetings, audit opinions are developed to ensure the effectiveness of auditing.

With respect to its internal auditing system, the Company has set up the Internal Audit Office, a unit consisting of a general manager and four members, under the Administration Department. The Office examines and evaluates the status of the execution of duties from the perspective of their legality and reasonability, and presents information obtained from the examinations and evaluations and advice and proposals for improvement to representative directors and related departments, including the Internal Control Department. In this way, the Company maintains appropriate operational management, and strives to improve its operations and streamline its management.

The accounting audit and auditing of internal control related to financial reports are provided by KPMG AZSA LLC, an audit firm that has signed an audit agreement with the Company as an independent organization.

### (2) The Company's internal control system

Tobu Railway has drawn up policies regarding its internal control system which encompass a system for ensuring that the performance of duties by the members of the Board of Directors of the Company, both as a body and as individuals, is in conformity with the law and with the Company's Articles of Incorporation, as well as a system for ensuring that business practices are appropriate.

# Financial Review (Consolidated)

## Business Performance

Although TOPTOUR CORPORATION, which was newly consolidated in August 2014, contributed to higher revenues throughout the year, revenues from operations were ¥583,269 million (US$4,860,575 thousand; a decrease of 1.7% year on year) and operating income was ¥53,159 million (US$442,992 thousand; a decrease of 5.1%) due to the impact of a change in the fiscal years at some consolidated subsidiaries and restrained buying after the tax increase.

As a result of recording dividend income following the sales of assets of a special purpose company in extraordinary income and despite a decrease in the Company's dividend income in non-operating income, net income after taxes and minority interests in income was ¥30,654 million (US$255,450 thousand; a decrease of 2.8% year on year).

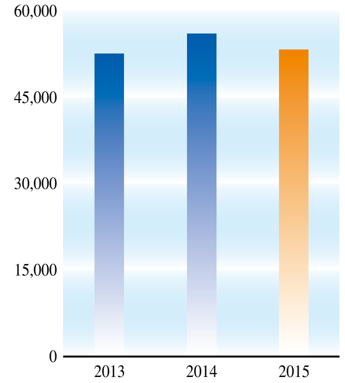
## Financial Position

Total assets were ¥1,596,725 million (US$13,306,042 thousand), an increase of ¥115,787 million (US$964,892 thousand) compared with the end of the previous consolidated fiscal year (an increase of 7.8%). This rise was mainly attributable to an increase from the purchase of fixed assets and a recovery in the market value of investment securities.

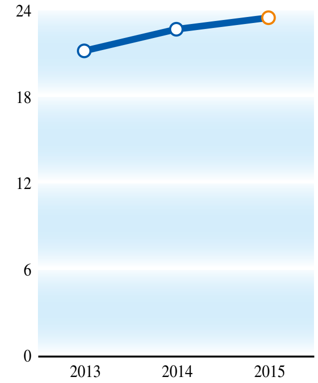
Liabilities stood at ¥1,201,899 million (US$10,015,825 thousand), increasing ¥75,027 million (US$625,225 thousand) compared with the end of the previous consolidated fiscal year (an increase of 6.7%), mainly reflecting an increase in borrowings.

Net assets were ¥394,826 million (US$3,290,217 thousand), an increase of ¥40,760 million (US$339,667 thousand) compared with the end of the previous consolidated fiscal year (an increase of 11.5%). This was mainly attributable to the recording of net income and an increase in unrealized gains on available-for-sale securities.

**Operating Income** (Millions of yen)




**Shareholders' Equity Ratio** (%)




* Shareholders' Equity Ratio equals net assets attributable to shareholders' as a percentage of total assets.

# Risks to which the Company's Business Is Subject

**The following is a list of categories of material risk that could significantly impact the business performance and financial position of the Group, and consequently could have a substantial effect on the decisions of investors.**

**The forecasts in the text below are based on the assessment of the Tobu Group as of the date of the Ordinary General Meeting of Shareholders (June 26, 2015).**

## (1) Changes in the Law

In the railway business in Japan, permission to engage in railway operations must be obtained from the Ministry of Land, Infrastructure, Transport and Tourism with respect to each railway line and each category of railway-related business under the Railway Business Law.

Under the Law, the initial setting and subsequent revision of fares by passenger transport operators must not exceed the upper limits approved by the Ministry. The railway operator must apply for permission to the Ministry each time it wishes to revise its fares within the approved upper limits.

Therefore, a change in the legal system and the revision of fares could have an impact on the business performance of the Company.

The business operation of the Company and other Group companies must also be in compliance with a variety of laws and regulations. A change in the relevant laws could, therefore, have a substantial effect on the business performance and/or financial position of the Group.

## (2) Adverse demographic trends

According to the Population Projection (median estimates) published by the National Institute of Population and Social Security Research in January 2012, the Japanese population will enter a long period of decline from 2010, the starting point of the projection. In the areas served by the stations in our railway network, the population is expected to decline with the falling birthrate, although there are some areas that lag behind the national average.

As the business operations of the Tobu Group are centered around railway operations serving areas within reach of the Group's railway stations, phenomena such as a declining number of children, an increasing number of elderly people, and a general population decline over the long term could have a substantial effect on the business performance and/or financial position of the Group.

## (3) Economic conditions

The Tobu Group constantly invests in equipment in its business operations, and the funds required for these capital investments are raised principally through the issuing of corporate bonds or by borrowing from financial institutions. Because of these facts, an upward movement in interest rates in the future would increase the Group's interest payment burden, and this could have a substantial effect on the business performance and/or financial position of the Group.

## (4) Management of personal information

In respect of its various business operations, the Tobu Group accumulates and manages databases containing information on individual customers. The Group takes great care to manage and safeguard this personal data properly in such ways as establishing in-house protection regulations on the acquisition and use of the information, fully enforcing the information management by related parties by developing the management system, and strengthening the development and supervision of confidentiality agreements when outsourcing information processing. However, in the event that, for some reason, such information were to be divulged or stolen, this would have an adverse impact on the trustworthiness of the Group, which could have a substantial effect on the business performance and/or financial position of the Group.

## (5) Natural disasters

As a railway service operator, the Tobu Group takes utmost care to ensure the safety of its services in order to win the trust of customers. However, in the event of an accident, a natural disaster, a terrorist attack, an act of war, or any other such external cause beyond the control of the Group, this could have a substantial effect on the business performance and/or financial position of the Group.

Moreover, the occurrence of unseasonable weather or weather that is otherwise exceptional, or an outbreak of an infectious disease, would have a negative impact on the business of tourism and leisure facilities, which would be likely to adversely affect the Group's leisure operations and related businesses. In this event, there could be a substantial effect on the business performance and/or financial position of the Group.

The above is a list of the principal categories of risk thought to apply to the business operations of the Tobu Group, but it is not intended to be an exhaustive list of all risks.

# Five-Year Summary

(Years ended March 31, TOBU RAILWAY CO.,LTD. and Subsidiaries)

## Consolidated

| | Millions of Yen | | | | | Thousands of U.S. Dollars* |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** | **2015** |
| Revenues from operations | ¥ 557,147 | ¥ 543,407 | ¥ 577,223 | ¥ 593,649 | **¥ 583,269** | **$ 4,860,575** |
| Operating income | 30,779 | 32,583 | 52,544 | 56,013 | **53,159** | **442,992** |
| Net income | 13,104 | 16,020 | 28,648 | 31,521 | **30,654** | **255,450** |
| Net assets | 274,029 | 292,990 | 327,739 | 354,066 | **394,826** | **3,290,217** |
| Total assets | 1,437,555 | 1,457,306 | 1,463,370 | 1,480,938 | **1,596,725** | **13,306,042** |
| | Yen | | | | | U.S. Dollars* |
| Net income per share — basic | ¥15.08 | ¥14.99 | ¥26.81 | ¥29.51 | **¥28.70** | **$0.24** |
| Net income per share — diluted | 15.03 | 14.94 | 26.73 | 29.42 | **28.62** | **0.24** |

### Sales by Sector

| | Millions of Yen | | | | | Thousands of U.S. Dollars* |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** | **2015** |
| Transportation | ¥207,262 | ¥204,696 | ¥211,346 | ¥216,661 | **¥211,961** | **$1,766,342** |
| Leisure | 68,605 | 60,148 | 74,294 | 75,211 | **79,613** | **663,442** |
| Real estate | 47,901 | 52,421 | 56,217 | 63,867 | **56,809** | **473,408** |
| Retail distribution | 210,648 | 202,035 | 209,438 | 207,810 | **205,056** | **1,708,800** |
| Other | 74,699 | 74,352 | 87,471 | 96,061 | **95,635** | **796,958** |

## Non-Consolidated

| | Millions of Yen | | | | | Thousands of U.S. Dollars* |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** | **2015** |
| Revenues from operations | ¥ 213,266 | ¥ 212,399 | ¥ 221,847 | ¥ 229,453 | **¥ 221,825** | **$ 1,840,208** |
| Operating income | 21,643 | 26,273 | 33,528 | 34,534 | **37,430** | **311,917** |
| Net income | 8,645 | 11,379 | 17,824 | 20,188 | **20,010** | **166,750** |
| Net assets | 246,461 | 261,331 | 281,109 | 297,641 | **318,699** | **2,655,825** |
| Total assets | 1,332,659 | 1,359,503 | 1,367,728 | 1,375,379 | **1,477,008** | **12,308,400** |
| | Yen | | | | | U.S. Dollars* |
| Dividends per share of common stock | ¥5.00 | ¥5.00 | ¥6.00 | ¥6.00 | **¥6.00** | **$0.05** |

* U.S. dollar amount have been translated from Japanese yen at the rate of ¥120.00 to U.S.$1, the approximate exchange rate prevailing on March 31, 2015.

# Consolidated Balance Sheets

March 31, 2014 and 2015

| Assets | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 31,200 | ¥ 30,052 | $ 250,433 |
| Time deposits | 345 | 250 | 2,084 |
| Trade receivables (Notes 8 and 10) | 50,394 | 56,877 | 473,975 |
| Short-term loans receivable | 1,193 | 1,059 | 8,825 |
| Marketable securities (Notes 3 and 8) | 1,803 | 354 | 2,950 |
| Inventories (Note 4) | 43,000 | 34,447 | 287,058 |
| Deferred tax assets (Note 17) | 4,555 | 4,448 | 37,067 |
| Prepaid expenses and other current assets | 16,490 | 14,250 | 118,750 |
| Allowance for doubtful accounts | (201) | (264) | (2,200) |
| Total current assets | 148,779 | 141,473 | 1,178,942 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 3 and 8): | | | |
| Non-consolidated subsidiaries and affiliates | 6,383 | 6,447 | 53,725 |
| Other | 68,875 | 86,056 | 717,133 |
| Long-term loans receivable | 1,065 | 1,017 | 8,475 |
| Deferred tax assets (Note 17) | 7,225 | 6,619 | 55,158 |
| Other investments | 29,577 | 24,428 | 203,567 |
| Allowance for doubtful accounts | (2,366) | (2,310) | (19,250) |
| Total investments and other assets | 110,759 | 122,257 | 1,018,808 |
| **Property and equipment** (Notes 5, 8 and 15): | | | |
| Land | 508,754 | 597,820 | 4,981,833 |
| Buildings and structures | 1,133,348 | 1,168,490 | 9,737,417 |
| Machinery, equipment and rolling stock | 487,585 | 502,162 | 4,184,683 |
| Construction in progress | 39,071 | 43,655 | 363,792 |
| | 2,168,758 | 2,312,127 | 19,267,725 |
| Less accumulated depreciation | (977,451) | (1,009,287) | (8,410,725) |
| Property and equipment — net | 1,191,307 | 1,302,840 | 10,857,000 |
| **Intangible assets** | 30,093 | 30,155 | 251,292 |
| Total assets | ¥1,480,938 | ¥ 1,596,725 | $13,306,042 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

| Liabilities and Net Assets | Millions of Yen 2014 | Millions of Yen 2015 | Thousands of U.S. Dollars (Note 1) 2015 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings (Notes 8, 12 and 18) | ¥ 46,917 | ¥ 139,705 | $ 1,164,208 |
| Current portion of long-term debt (Notes 8 and 12) | 106,470 | 91,736 | 764,467 |
| Trade payables | 65,084 | 73,535 | 612,792 |
| Accrued expenses | 9,189 | 8,801 | 73,342 |
| Income taxes payable | 12,824 | 12,454 | 103,783 |
| Advances received | 53,720 | 62,328 | 519,400 |
| Allowance for loss on collection of gift certificates outstanding | 3,688 | 3,847 | 32,058 |
| Other current liabilities (Notes 13, 14 and 17) | 47,142 | 47,953 | 399,608 |
| Total current liabilities | 345,034 | 440,359 | 3,669,658 |
| **Non-current liabilities:** | | | |
| Long-term debt due after one year (Notes 8 and 12) | 624,198 | 600,024 | 5,000,200 |
| Deferred tax liabilities (Note 17) | 11,086 | 16,077 | 133,975 |
| Deferred tax liabilities related to land revaluation | 58,158 | 52,533 | 437,775 |
| Retirement allowance for directors and auditors | 1,084 | 1,141 | 9,508 |
| Net defined benefit liability (Note 9) | 43,680 | 51,736 | 431,133 |
| Deposits from tenants and golf club members | 30,598 | 30,479 | 253,992 |
| Urban railways improvement reserve | 3,617 | — | — |
| Asset retirement obligations (Note 14) | 2,837 | 2,960 | 24,667 |
| Other non-current liabilities (Note 13) | 6,580 | 6,590 | 54,917 |
| Total non-current liabilities | 781,838 | 761,540 | 6,346,167 |
| Total liabilities | 1,126,872 | 1,201,899 | 10,015,825 |
| | | | |
| **Contingent liabilities** (Note 10) | | | |
| | | | |
| **Net assets** (Note 11): | | | |
| **Owners' equity** | | | |
| Common stock: | | | |
| Authorized — 2,000,000 thousand shares | | | |
| Issued — 1,075,541 thousand shares in 2014 and 2015 | 102,136 | 102,136 | 851,133 |
| Capital surplus | 70,398 | 70,399 | 586,658 |
| Retained earnings | 115,569 | 131,682 | 1,097,351 |
| Less treasury stock, at cost: | | | |
| 7,518 thousand shares in 2014 and 7,836 thousand shares in 2015 | (3,702) | (3,873) | (32,275) |
| Total owners' equity | 284,401 | 300,344 | 2,502,867 |
| **Accumulated other comprehensive income** | | | |
| Unrealized gains on available-for-sale securities, net of taxes | 16,228 | 29,219 | 243,492 |
| Land revaluation difference, net of taxes | 38,337 | 43,344 | 361,200 |
| Foreign currency translation adjustments | 54 | 149 | 1,241 |
| Remeasurements of defined benefit plans | (2,885) | 2,957 | 24,642 |
| Total accumulated other comprehensive income | 51,734 | 75,669 | 630,575 |
| **Minority interests** | 17,931 | 18,813 | 156,775 |
| Total net assets | 354,066 | 394,826 | 3,290,217 |
| Total liabilities and net assets | ¥1,480,938 | ¥1,596,725 | $13,306,042 |

# Consolidated Statements of Income and Comprehensive Income

Years ended March 31, 2014 and 2015

| 1. Consolidated Statements of Income | Millions of Yen 2014 | Millions of Yen 2015 | Thousands of U.S. Dollars (Note 1) 2015 |
|---|---|---|---|
| **Revenues from operations** | ¥593,649 | **¥583,269** | **$4,860,575** |
| **Operating expenses:** | | | |
| Transportation, other services and cost of sales | 415,707 | **412,229** | **3,435,242** |
| Selling, general and administrative expenses | 121,929 | **117,881** | **982,341** |
| | 537,636 | **530,110** | **4,417,583** |
| Operating income | 56,013 | **53,159** | **442,992** |
| **Other income (expenses):** | | | |
| Interest and dividend income | 5,817 | **2,266** | **18,883** |
| Interest expense | (10,569) | **(9,827)** | **(81,892)** |
| Investment losses from equity method affiliates — net | (36) | **(8)** | **(67)** |
| Loss on sales and disposal of property and equipment — net | (671) | **(1,468)** | **(12,233)** |
| Loss on reduction of cost of property and equipment | (3,124) | **(635)** | **(5,292)** |
| Subsidies from local government authorities | 3,508 | **1,073** | **8,942** |
| Impairment loss on fixed assets (Note 5) | (1,083) | **(825)** | **(6,875)** |
| Reversal of urban railways improvement reserve | 3,617 | **3,617** | **30,142** |
| Environmental expenditures | (1,296) | **—** | **—** |
| Dividends income of gain on special purpose company assets sales | — | **8,278** | **68,983** |
| Other — net | 970 | **1,934** | **16,117** |
| Other income (expenses) — net | (2,867) | **4,405** | **36,708** |
| Income before income taxes and minority interests | 53,146 | **57,564** | **479,700** |
| **Income taxes** (Note 17)**:** | | | |
| Current | 23,095 | **23,613** | **196,775** |
| Deferred | (3,097) | **1,996** | **16,633** |
| Income before minority interests | 33,148 | **31,955** | **266,292** |
| **Minority interests in net income of consolidated subsidiaries** | 1,627 | **1,301** | **10,842** |
| Net income | ¥ 31,521 | **¥ 30,654** | **$ 255,450** |

| | Yen 2014 | Yen 2015 | U.S. Dollars (Note 1) 2015 |
|---|---|---|---|
| **Net income per share — basic** | ¥29.51 | **¥28.70** | **$0.24** |
| **Net income per share — diluted** | 29.42 | **28.62** | **0.24** |
| **Dividends per share of common stock** | 6.00 | **6.00** | **0.05** |

The accompanying notes to consolidated financial statements are an integral part of these statements.

| 2. Consolidated Statements of Comprehensive Income | Millions of Yen 2014 | Millions of Yen 2015 | Thousands of U.S. Dollars (Note 1) 2015 |
|---|---|---|---|
| Income before minority interests | ¥33,148 | **¥31,955** | **$266,292** |
| Other comprehensive income | | | |
| (1) Unrealized gains on available-for-sale securities, net of taxes | 3,300 | **12,999** | **108,325** |
| (2) Land revaluation difference, net of taxes | 2 | **5,394** | **44,950** |
| (3) Foreign currency translation adjustments | 55 | **95** | **791** |
| (4) Remeasurements of defined benefit plans, net of taxes | — | **5,969** | **49,742** |
| (5) Share of other comprehensive income (loss) of associates accounted for using equity method | (23) | **(81)** | **(675)** |
| Total other comprehensive income (Note 6) | 3,334 | **24,376** | **203,133** |
| Comprehensive income | 36,482 | **56,331** | **469,425** |
| (Attributable to) | | | |
| (1) Owners of the parent | 34,848 | **55,013** | **458,442** |
| (2) Minority interests | 1,634 | **1,318** | **10,983** |

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Years ended March 31, 2014 and 2015

| | Thousands | Millions of Yen | | | | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on available-for-sale securities, net of taxes |
| **Balance as of April 1, 2013** | 1,075,541 | ¥102,136 | ¥70,398 | ¥ 90,051 | ¥(3,435) | ¥12,958 |
| Net income | | | | 31,521 | | |
| Cash dividends | | | | (6,411) | | |
| Net change during the year in land revaluation difference | | | | 430 | | |
| Purchase of treasury stock | | | | | (277) | |
| Disposal of treasury stock | | | 0 | | 10 | |
| Change of scope of equity method | | | | (22) | | |
| Other — net | | | | | | 3,270 |
| **Balance as of March 31, 2014** | 1,075,541 | ¥102,136 | ¥70,398 | ¥115,569 | ¥(3,702) | ¥16,228 |
| **Balance as of April 1, 2014** | **1,075,541** | **¥102,136** | **¥70,398** | **¥115,569** | **¥(3,702)** | **¥16,228** |
| Cumulative effects of changes in accounting policies | | | | **(8,516)** | | |
| Restated balance | | **102,136** | **70,398** | **107,053** | **(3,702)** | **16,228** |
| Net income | | | | **30,654** | | |
| Cash dividends | | | | **(6,408)** | | |
| Net change during the year in land revaluation difference | | | | **383** | | |
| Purchase of treasury stock | | | | | **(174)** | |
| Disposal of treasury stock | | | **1** | | **3** | |
| Other — net | | | | | | **12,991** |
| **Balance as of March 31, 2015** | **1,075,541** | **¥102,136** | **¥70,399** | **¥131,682** | **¥(3,873)** | **¥29,219** |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Land revaluation difference, net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Minority interests | Total net assets |
| **Balance as of April 1, 2013** | ¥38,769 | ¥ — | ¥ — | ¥16,862 | ¥327,739 |
| Net income | | | | | 31,521 |
| Cash dividends | | | | | (6,411) |
| Net change during the year in land revaluation difference | | | | | 430 |
| Purchase of treasury stock | | | | | (277) |
| Disposal of treasury stock | | | | | 10 |
| Change of scope of equity method | | | | | (22) |
| Other — net | (432) | 54 | (2,885) | 1,069 | 1,076 |
| **Balance as of March 31, 2014** | ¥38,337 | ¥54 | ¥(2,885) | ¥17,931 | ¥354,066 |
| **Balance as of April 1, 2014** | **¥38,337** | **¥54** | **¥(2,885)** | **¥17,931** | **¥354,066** |
| Cumulative effects of changes in accounting policies | | | | **(1)** | **(8,517)** |
| Restated balance | **38,337** | **54** | **(2,885)** | **17,930** | **345,549** |
| Net income | | | | | **30,654** |
| Cash dividends | | | | | **(6,408)** |
| Net change during the year in land revaluation difference | | | | | **383** |
| Purchase of treasury stock | | | | | **(174)** |
| Disposal of treasury stock | | | | | **4** |
| Other — net | **5,007** | **95** | **5,842** | **883** | **24,818** |
| **Balance as of March 31, 2015** | **¥43,344** | **¥149** | **¥ 2,957** | **¥18,813** | **¥394,826** |

The accompanying notes to consolidated financial statements are an integral part of these statements.

| | Thousands | Thousands of U.S. Dollars (Note 1) | | | | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Unrealized gains on available-for-sale securities, net of taxes |
| **Balance as of April 1, 2014** | **1,075,541** | **$851,133** | **$586,650** | **$ 963,075** | **$(30,850)** | **$135,233** |
| Cumulative effects of changes in accounting policies | | | | **(70,966)** | | |
| Restated balance | | **851,133** | **586,650** | **892,109** | **(30,850)** | **135,233** |
| Net income | | | | **255,450** | | |
| Cash dividends | | | | **(53,400)** | | |
| Net change during the year in land revaluation difference | | | | **3,192** | | |
| Purchase of treasury stock | | | | | **(1,450)** | |
| Disposal of treasury stock | | | **8** | | **25** | |
| Other — net | | | | | | **108,259** |
| **Balance as of March 31, 2015** | **1,075,541** | **$851,133** | **$586,658** | **$1,097,351** | **$(32,275)** | **$243,492** |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---|---|---|---|---|---|
| | Land revaluation difference, net of taxes | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Minority interests | Total net assets |
| **Balance as of April 1, 2014** | **$319,475** | **$ 450** | **$(24,041)** | **$149,425** | **$2,950,550** |
| Cumulative effects of changes in accounting policies | | | | **(9)** | **(70,975)** |
| Restated balance | **319,475** | **450** | **(24,041)** | **149,416** | **2,879,575** |
| Net income | | | | | **255,450** |
| Cash dividends | | | | | **(53,400)** |
| Net change during the year in land revaluation difference | | | | | **3,192** |
| Purchase of treasury stock | | | | | **(1,450)** |
| Disposal of treasury stock | | | | | **33** |
| Other — net | **41,725** | **791** | **48,683** | **7,359** | **206,817** |
| **Balance as of March 31, 2015** | **$361,200** | **$1,241** | **$ 24,642** | **$156,775** | **$3,290,217** |

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

Years ended March 31, 2014 and 2015

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 53,146 | ¥ 57,564 | $ 479,700 |
| Depreciation and amortization | 52,670 | 51,629 | 430,242 |
| Impairment loss on fixed assets | 1,083 | 825 | 6,875 |
| Environmental expenditures | 1,296 | — | — |
| Investment losses (gains) from equity method affiliates — net | 36 | 8 | 67 |
| Gain on sales of marketable and investment securities — net | (99) | (1,652) | (13,767) |
| Reversal of urban railways improvement reserve | (3,617) | (3,617) | (30,142) |
| Increase (decrease) in allowance for doubtful accounts | (1,244) | 9 | 75 |
| Increase (decrease) in net defined benefit liability | 1,810 | 4,338 | 36,150 |
| Increase (decrease) in retirement allowance for directors and auditors | (119) | 57 | 475 |
| Increase (decrease) in allowance for loss on collection of gift certificates outstanding | 15 | 159 | 1,325 |
| Interest and dividend income | (5,817) | (10,544) | (87,867) |
| Interest expense | 10,569 | 9,827 | 81,892 |
| Subsidies from local government authorities | (3,508) | (1,073) | (8,942) |
| Loss on sales and disposal of property and equipment — net | 1,624 | 1,824 | 15,200 |
| Loss on reduction of cost of property and equipment | 3,124 | 635 | 5,292 |
| Decrease (increase) in trade receivables | (1,222) | (6,487) | (54,058) |
| Decrease (increase) in inventories | 12,344 | 8,212 | 68,433 |
| Increase (decrease) in trade payables | 72 | 7,154 | 59,617 |
| Other | 3,698 | (776) | (6,467) |
| Subtotal | 125,861 | 118,092 | 984,100 |
| Interest and dividend received | 5,818 | 10,532 | 87,766 |
| Interest paid | (10,624) | (9,607) | (80,058) |
| Income tax refunded (paid) | (23,222) | (24,192) | (201,600) |
| Net cash provided by operating activities | 97,833 | 94,825 | 790,208 |
| **Cash flows from investing activities:** | | | |
| Net decrease (increase) in short-term loans receivable | 305 | 204 | 1,700 |
| Long-term loans advanced | (13) | (17) | (142) |
| Proceeds from collection of long-term loans | 11 | 34 | 283 |
| Purchase of marketable and investment securities | (1,579) | (141) | (1,175) |
| Proceeds from sales and redemption of marketable and investment securities | 1,303 | 3,170 | 26,417 |
| Purchase of investments in consolidated subsidiaries affecting scope of consolidation (Note 7) | (2,975) | — | — |
| Proceeds from sales of investments in consolidated subsidiaries affecting scope of consolidation | — | 297 | 2,475 |
| Purchase of property and equipment and intangible assets | (61,352) | (166,801) | (1,390,008) |
| Proceeds from sales of property and equipment and intangible assets | 372 | 1,454 | 12,117 |
| Receipt of contributions for construction works | 9,359 | 9,144 | 76,200 |
| Other | 1,372 | 9,753 | 81,275 |
| Net cash provided by (used in) investing activities | (53,197) | (142,903) | (1,190,858) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term borrowings | 2,745 | 92,788 | 773,233 |
| Proceeds from long-term debt | 73,007 | 39,155 | 326,292 |
| Repayment of long-term debt | (120,163) | (73,359) | (611,325) |
| Proceeds from bonds issued | 39,600 | 29,800 | 248,333 |
| Redemption of bonds | (19,700) | (29,800) | (248,333) |
| Cash dividends paid | (6,401) | (6,415) | (53,458) |
| Cash dividends paid to minority shareholders | (3) | (8) | (67) |
| Other | (5,844) | (5,331) | (44,425) |
| Net cash provided by (used in) financing activities | (36,759) | 46,830 | 390,250 |
| Effect of exchange rate changes on cash and cash equivalents | 55 | 100 | 833 |
| Increase (decrease) in cash and cash equivalents | 7,932 | (1,148) | (9,567) |
| Cash and cash equivalents at beginning of year | 23,268 | 31,200 | 260,000 |
| Cash and cash equivalents at end of year | ¥ 31,200 | ¥ 30,052 | $ 250,433 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Notes to the Consolidated Financial Statements

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments 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 of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of TOBU RAILWAY CO.,LTD. (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 Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which was ¥120 to $1.00. The convenience translations should not be construed as representations 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. Significant accounting policies

***(a) Consolidation***

The consolidated financial statements include the accounts of significant subsidiaries (the "Group") substantially controlled through ownership of majority voting rights or the existence of certain conditions. The consolidated financial statements comprise the accounts of 90 and 88 subsidiaries for the years ended March 31, 2014 and 2015.

The Company has adopted the equity method of accounting for investments, of which the Company owns 20–50% or exerts influence on financial and operational policies, in 7 significant affiliates for the years ended March 31, 2014 and 2015.

All significant inter-company transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill is amortized over reasonable years on the disposition of each case within 20 years. Negative goodwill which was incurred before March 31, 2010 is amortized over 20 years.

Financial statements of certain subsidiaries and affiliates prepared as of balance sheet dates different from that of the Company are used for consolidation. However, necessary adjustments have been made if the effect of using different balance sheet dates is material.

***(b) Securities***

Securities are classified as follows:

(1) Securities held for trading purposes (hereafter, "Trading securities")
(2) Debt securities intended to be held to maturity (hereafter, "Held-to-maturity debt securities")
(3) All other securities that are not classified in any of the above categories (hereafter, "Available-for-sale securities")

Trading securities are stated at fair market value. The Group had no trading securities through the years ended March 31, 2014 and 2015.

Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities are stated as explained below.

(i) Available-for-sale securities with available market values
According to the Japanese Accounting Standards for Financial Instruments, available-for-sale securities for which market quotations are available are stated at fair market value as of the balance sheet date. Net unrealized holding gains or losses on these securities are reported as a separate item in the net assets at an amount net of applicable income taxes. The cost of sales of such securities is determined mainly by the moving-average method.

(ii) Available-for-sale securities with no available market values
Available-for-sale securities for which market quotations are not available are mainly stated at moving-average costs.

If the market value of held-to-maturity debt securities or available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of available-for-sale securities is not readily available, such securities are written down to net asset value with a corresponding charge in the statement of income in the period that net asset value declines significantly. In these cases, such fair market value or the net asset value will be the new carrying amount of the securities.

***(c) Allowance for doubtful accounts***

The Group provides allowance for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on analysis of individual accounts.

***(d) Inventories***

Inventories are stated at cost as follows:

(1) Merchandise inventories: mainly the retail inventory method

(2) Real estate: the identified cost method

(3) Materials and supplies: mainly the moving-average cost method

Balance sheet amount is written-down to net selling value in case profitability of inventories declined.

***(e) Derivatives accounting***

The Group uses derivative financial instruments to manage its exposure to fluctuations in exchange rates.

***(f) Property and equipment (excluding lease assets)***

Property and equipment are stated at cost. Depreciation of buildings acquired after March 31, 1998 is provided on the straight-line method, and depreciation of other property, is provided principally using the declining-balance method. The useful lives of major items are 2 to 65 years.

Maintenance and repairs, including minor renovations and improvements, are charged to expense, and major improvements are capitalized.

***(g) Intangible assets (excluding lease assets)***

Depreciation of intangible assets, except for software for internal use, is provided on the straight-line method.

Software for internal use is depreciated using the straight-line method over the estimated useful life of five years.

***(h) Lease assets***

Finance lease which do not transfer ownership are capitalized and depreciated by the straight-line method, with the lease period as the useful life and a residual value of zero.

***(i) Subsidies for construction works***

When constructing railway facilities, such as grade separations and widening railroad crossings, the Company receives contributions from national and municipal governments and other corporations. Those contributions are recognized in the income statement as gains in the period in which the construction with contributions is completed. If assets constructed with contributions are not expected to increase revenues of the Company and the amount of the contributions is ¥100 million or more, the amount equal to such contributions is directly deducted from the acquisition costs of the related assets upon completion and the same amount of loss on reduction of cost of property and equipment is recognized in the income statement.

***(j) Land revaluation***

Pursuant to the Law Concerning Land Revaluation, the Company, domestic consolidated subsidiaries and affiliates accounted for by the equity method revalued land used for business activities in the period from March 31, 2000 to March 31, 2002.

With respect to revaluation differences, amounts equivalent to income taxes related to the revaluation differences are included in "Deferred tax liabilities related to land revaluation," amounts belonging to minority shareholders are included in "Minority interests," and amounts from which these are deducted are recorded as "Land revaluation difference, net of taxes" in net assets. For an affiliate accounted for by the equity method, the Company's share net of the related income taxes is included in "Land revaluation difference, net of taxes" in net assets.

(i) The Company

The revaluation of land was determined mainly based on real estate tax values in accordance with Article 2, Paragraph 3 of the Enforcement Ordinance Concerning Land Revaluation, posted price values in accordance with Article 2, Paragraph 1 of the same and fiduciary point price values in accordance with Article 2, Paragraph 2 of the same Ordinance on March 31, 2002.

(ii) Domestic consolidated subsidiaries and affiliates accounted for by the equity method

The revaluation of the land was determined based on real estate tax values in accordance with Article 2, Paragraph 3 of the Enforcement Ordinance Concerning Land Revaluation and the appraisal values made by certified real estate appraisers in accordance with Article 2, Paragraph 5 of the same Ordinance from March 31, 2000 to March 31, 2002.

The excess of book values after revaluation over fair values at March 31, 2014 and 2015 were ¥56,838 million and ¥52,635 million ($438,625 thousand), respectively.

*(k) Retirement allowance for directors and auditors*

The certain consolidated subsidiaries recognize liabilities for retirement allowance for directors and auditors based on the bylaws and on the accrual basis at the balance sheet date.

*(l) Allowance for loss on collection of gift certificates outstanding*

Allowance for loss on collection of gift certificates outstanding issued by certain consolidated subsidiaries is provided for losses by future collections with regard to the uncollected balance of shopping coupons, travel gift coupons and similar coupons for which income has been posted, based on the past experience plus estimated loss amounts.

*(m) Employees' severance and retirement benefits*

In calculating the projected benefit obligation, the benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal year.

Unrecognized net transition obligation is amortized by the straight-line method over 15 years.

The unrecognized prior service costs are amortized by the straight-line method over certain years (mainly 14 years) which do not exceed the average remaining service years of employees at the time when the prior service costs were incurred.

Actuarial gains and losses are recognized in the statements of income using the straight-line method over certain years (mainly 14 years) which do not exceed the average remaining service years of employees at the time when the actuarial gains and losses were incurred commencing with the following year.

*(n) Deferred charges*

Bond issue costs are amortized using the straight-line method for the period up to maturity. However, non-significant bond issue costs are amortized in lump sum as expensed.

*(o) Urban railways improvement reserve*

In accordance with the "Law for the Urban Improvement Reserve" enacted in April 1986, the Company is required to provide a reserve for the cost of specific construction projects aimed at strengthening railway transport capacity at an amount equivalent to 3% of the total passenger fares. The provision for this reserve is tax-deductible. The reserve must be reversed to income ten years after its provision or upon completion of the relevant construction projects, whichever is earlier. All of the reserve amount was reversed to income in the year ended March 31, 2015.

*(p) Income taxes*

Income taxes comprise corporation, enterprise and inhabitants taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for tax loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

*(q) Consumption taxes*

Consumption taxes are levied in Japan on the domestic sales of goods and services at the rate of 8%. Consumption taxes are excluded from revenue and expense amounts.

*(r) Cash and cash equivalents*

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

*(s) Per share information*

Net income per share — basic is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits.

Net income per share — diluted is calculated assuming conversion of all dilutive convertible bonds was exercised.

In accordance with the Japanese Corporate Law, the declaration of year-end dividends appropriated from retained earnings is approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income include the year-end dividends approved after the end of the relevant fiscal year and interim dividends approved by the Board of Directors.

*(t) Accounting change*

(Change in accounting policies due to application of new or revised accounting standards)

The Group has applied "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Accounting Standard")) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, the "Guidance")), in terms of regulations stipulated in the text of the Accounting Standard, Paragraph 35 and the Guidance, Paragraph 67, beginning with the fiscal year ended March 31, 2015. We have reviewed the calculation methods of the projected benefit obligation and service cost, changed the method of attributing the expected projected benefit obligation to periods of service from a straight-line basis to a benefit formula basis, and changed the method of determining the discount rate from the discount rate using the discount rate based on the average remaining service years of employees to the weighted average discount rate based on the estimated timing of each benefit payment.

The Accounting Standard and the Guidance have been applied in accordance with the transitional treatment stipulated in the Accounting Standard, Paragraph 37, and the amount of financial impact resulting from the change in the calculation method of the projected obligation and service cost was added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2015.

As a result of this change, net defined benefit liability increased by ¥11,865 million ($98,875 thousand), net defined benefit asset decreased by ¥1,236 million ($10,300 thousand), retained earnings decreased by ¥8,516 million ($70,966 thousand) and minority interests decreased by ¥1 million ($9 thousand) at the beginning of the fiscal year ended March 31, 2015. The effect on these changes on the consolidated statements of income is considered to be immaterial. As the effect on these changes on the segment information is considered to be immaterial, the information is omitted.

*(u) Accounting standards issued but not yet effective*

-Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013)

-Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013)

-Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013)

-Accounting Standard for Earnings Per Share" (ASBJ Statement No.2, September 13, 2013)

-Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013)

-Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4, September 13, 2013)

(1) Summary

These accounting standards primarily amend on the treatment of the parent company's changes in equity of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary, the treatment of acquisition-related expenses, the treatment of provisional accounting, and the presentation of Net Income and the change from minority interests to non-controlling interests.

(2) Effective dates

Effective from the beginning of annual periods from April 1, 2015

Transitional treatment is scheduled to be applied to the business combination from the beginning of the fiscal year ended March 31, 2016.

(3) Effect of application of the standard

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

*(v) Reclassifications*

Certain prior year amounts have been reclassified to conform to the 2015 presentation. These changes had no impact on previously reported results of operations or cash flows or net assets.

## 3. Securities

The following table summarizes book values and fair values of held-to-maturity debt securities as of March 31, 2014 and 2015:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | **2015** | | | **2015** | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Securities with available fair value exceeding book value | ¥2,912 | ¥2,983 | ¥71 | **¥1,514** | **¥1,564** | **¥50** | **$12,617** | **$13,033** | **$416** |
| Securities with available fair value not exceeding book value | 349 | 348 | (1) | **88** | **88** | **(0)** | **733** | **733** | **(0)** |
| Total | ¥3,261 | ¥3,331 | ¥70 | **¥1,602** | **¥1,652** | **¥50** | **$13,350** | **$13,766** | **$416** |

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair market values as of March 31, 2014 and 2015:

Securities with book values exceeding acquisition costs:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | **2015** | | | **2015** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity | ¥27,964 | ¥53,016 | ¥25,052 | **¥29,764** | **¥72,753** | **¥42,989** | **$248,033** | **$606,275** | **$358,242** |
| Other | 151 | 229 | 78 | **151** | **291** | **140** | **1,259** | **2,425** | **1,166** |
| Total | ¥28,115 | ¥53,245 | ¥25,130 | **¥29,915** | **¥73,044** | **¥43,129** | **$249,292** | **$608,700** | **$359,408** |

Securities with book values not exceeding acquisition costs:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | **2015** | | | **2015** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity | ¥2,103 | ¥1,907 | ¥(196) | **¥157** | **¥143** | **¥(14)** | **$1,308** | **$1,192** | **$(116)** |
| Other | 10 | 10 | (0) | **10** | **10** | **(0)** | **83** | **83** | **(0)** |
| Total | ¥2,113 | ¥1,917 | ¥(196) | **¥167** | **¥153** | **¥(14)** | **$1,391** | **$1,275** | **$(116)** |

Since the total amounts of gains or losses on sales of available-for-sale securities are not significant for the years ended March 31, 2014 and 2015, such amounts are not disclosed.

## 4. Inventories

Inventories at March 31, 2014 and 2015 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Real estate for sale | ¥28,505 | **¥20,541** | **$171,175** |
| Construction in progress | 2,648 | **1,990** | **16,583** |
| Finished products and merchandise | 8,149 | **8,148** | **67,900** |
| Materials and supplies | 3,698 | **3,768** | **31,400** |
| Total | ¥43,000 | **¥34,447** | **$287,058** |

## 5. Impairment loss on fixed assets

In adherence with management accounting classifications, the Group generally categorizes assets according to operations or properties.

The Group recognized impairment loss on fixed assets because the expected operating gain was not realized and the continuous decline in the market values of land. The Group recognized ¥1,083 million and ¥825 million ($6,875 thousand) impairment loss on fixed assets in the years ended March 31, 2014 and 2015, respectively.

The main items of impairment loss on fixed assets are as follows:

2014

| Purpose of use | Main asset type | Main location |
|---|---|---|
| Leasing facilities | Land, buildings | Maebashi City, Gunma Prefecture |

**2015**

| **Purpose of use** | **Main asset type** | **Main location** |
|---|---|---|
| **Leasing facilities** | **Land, buildings and other** | **Saitama City, Saitama Prefecture** |
| **Idle assets** | **Land, investments and other assets** | **Susono City, Shizuoka Prefecture** |

| | Millions of Yen |
|---|---|
| | 2014 |
| Land | ¥ 711 |
| Buildings and structures | 372 |
| Investments and other assets | 0 |
| Total | ¥1,083 |

| Purpose of use | Land | Buildings | Other | Investments and other assets | Impairment loss on fixed assets |
|---|---|---|---|---|---|
| | Millions of Yen | | | | |
| | 2015 | | | | |
| Leasing facilities | ¥478 | ¥314 | ¥ 1 | ¥— | ¥793 |
| Idle assets | 9 | — | — | 23 | 32 |
| Total | ¥487 | ¥314 | ¥ 1 | ¥23 | ¥825 |

| Purpose of use | Land | Buildings | Other | Investments and other assets | Impairment loss on fixed assets |
|---|---|---|---|---|---|
| | Thousands of U.S. Dollars | | | | |
| | 2015 | | | | |
| Leasing facilities | $3,982 | $2,613 | $12 | $ — | $6,607 |
| Idle assets | 76 | — | — | 192 | 268 |
| Total | $4,058 | $2,613 | $12 | $192 | $6,875 |

The Group determines recoverable amounts for the above assets groups by measuring the net selling prices or values in use. Net selling prices used to measure recoverable amounts reasonably reflect assessed values of fixed assets or evaluations based on real estate appraisal benchmarks or other. Value in use for the measurement of recoverable amounts is based on the present values of expected cash flows discounted at 4.0%.

## 6. Consolidated statements of comprehensive income

Reclassification adjustments and the related tax effects concerning Other Comprehensive Income for the fiscal year ended March 31, 2014 and 2015 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Unrealized gains on available-for-sale securities, net of taxes: | | | |
| The amount arising during the period | ¥ 5,061 | ¥18,325 | $152,708 |
| Reclassification adjustments | (20) | (141) | (1,175) |
| Sub-total, before tax | 5,041 | 18,184 | 151,533 |
| The amount of tax effect | (1,741) | (5,185) | (43,208) |
| Sub-total, net of tax | 3,300 | 12,999 | 108,325 |
| Land revaluation difference, net of taxes: | | | |
| The amount arising during the period | — | — | — |
| Reclassification adjustments | — | — | — |
| Sub-total, before tax | — | — | — |
| The amount of tax effect | 2 | 5,394 | 44,950 |
| Sub-total, net of tax | 2 | 5,394 | 44,950 |
| Foreign currency translation adjustments: | | | |
| The amount arising during the period | 55 | 95 | 791 |
| Reclassification adjustments | — | — | — |
| Sub-total, before tax | 55 | 95 | 791 |
| The amount of tax effect | — | — | — |
| Sub-total, net of tax | 55 | 95 | 791 |
| Remeasurements of defined benefit plans: | | | |
| The amount arising during the period | — | 3,596 | 29,967 |
| Reclassification adjustments | — | 5,338 | 44,483 |
| Sub-total, before tax | — | 8,934 | 74,450 |
| The amount of tax effect | — | (2,965) | (24,708) |
| Sub-total, net of tax | — | 5,969 | 49,742 |
| Share of other comprehensive income of associates accounted for using equity method: | | | |
| The amount arising during the period | (23) | (81) | (675) |
| Total other comprehensive income | ¥ 3,334 | ¥24,376 | $203,133 |

## 7. Supplementary cash flow information

Major breakdown of assets and liabilities that are newly consolidated subsidiaries of the Company after the acquisition of their shares for the fiscal year ended March 31, 2014 is as follows:

| | Millions of Yen |
|---|---|
| | 2014 |
| Tiramisu Holdings Co., Ltd. and its subsidiaries: | |
| Assets: | |
| Current assets | ¥15,224 |
| Non-current assets | 2,735 |
| Total | ¥17,959 |
| Liabilities: | |
| Current liabilities | ¥17,420 |
| Non-current liabilities | 3,861 |
| Total | ¥21,281 |

There is no newly consolidated subsidiary for the fiscal year ended March 31, 2015.

## 8. Short-term borrowings and long-term debt

Short-term borrowings are represented generally by overdrafts. The weighted-average interest rate for short-term bank loans at March 31, 2014 and 2015 was 0.8% and 0.7%, respectively.

Long-term debt at March 31, 2014 and 2015 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Secured: | | | |
| Loans from banks, interest rates 0.68%–3.30%, maturing through 2035 | ¥ 155,062 | **¥151,724** | **$1,264,367** |
| Loans from construction, transport and technology agency, interest rates at 1.5% maturing through 2030 | 44,672 | **40,114** | **334,283** |
| Advances received | — | **18,943** | **157,858** |
| Unsecured: | | | |
| Loans from banks, interest rates 0.249%–5.20%, and others maturing through 2030 | 369,889 | **339,023** | **2,825,192** |
| Bonds issued in 2006 to 2015 with interest rate ranging from 0% to 2.19% due from 2015 to 2026 | 159,470 | **159,470** | **1,328,917** |
| | 729,093 | **709,274** | **5,910,617** |
| Less current portion | (106,325) | **(91,736)** | **(764,467)** |
| | ¥ 622,768 | **¥617,538** | **$5,146,150** |

As of March 31, 2014 and 2015, pledged assets for short-term debt of ¥4,510 million and ¥4,862 million ($40,517 thousand) and long-term debt due within one year of ¥20,151 million and ¥20,729 million ($171,742 thousand) and long-term debt of ¥179,583 million and ¥171,109 million ($1,425,908 thousand) (excluding long-term debt due within one year) comprised trade receivables and marketable securities in the amounts of ¥2,127 million and ¥1,956 million ($16,300 thousand), investment securities in the amounts of ¥251 million and ¥1,292 million ($10,767 thousand), investments and other assets of zero and ¥254 million ($2,117 thousand) and property and equipment in the amounts of ¥669,723 million and ¥674,820 million ($5,623,500 thousand), respectively.

As of March 31, 2014 and 2015, the Company has committed, in connection with short-term borrowings and long-term debt in the amount of ¥300,787 million and ¥380,135 million ($3,167,792 thousand), to maintain the amount of net assets or former shareholders' equity on the consolidated or non-consolidated balance sheets as of the fiscal year-end at 75% or more of the corresponding amount as of the end of previous fiscal year.

In addition as of March 31, 2014 and 2015, the Company has committed, in connection with short-term borrowings and long-term debt in the amount of ¥10,285 million and ¥5,335 million ($44,458 thousand) included in ¥300,787 million and ¥380,135 million ($3,167,792 thousand) not to incur net losses for two consecutive years on a consolidated and non-consolidated basis.

And as of March 31, 2014 and 2015, with respect to the Company's corporate bonds in the amount of ¥30,000 million ($250,000 thousand), if the Company incurs ordinary losses on a non-consolidated basis for two consecutive years, the bond holders are entitled to claim repayment of the bonds without regard to the maturity date of the bond.

## 9. Employees' severance and retirement benefits

**For the year ended March 31, 2014 and 2015**

**Outline of Adopted Retirement Benefit Plan**

Tobu Railway Co., Ltd. and its consolidated subsidiaries have established as defined benefit plans, a defined benefit pension plan, a comprehensive employee pension fund plan, and a lump-sum retirement benefit plan. Further, as a defined contribution plan, the Company has established a defined contribution pension plan and a smaller enterprise retirement allowance mutual aid plan. When an employee retires, in some cases, premium retirement benefits may be paid to retiring employees which are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits.

The Company and some of its consolidated subsidiaries use the simplified method to calculate retirement benefit obligations.

**(1) Reconciliation of the projected benefit obligation between the beginning of the fiscal year and the end of the fiscal year is as follows (Except for the simplified method in calculating the projected benefit obligation):**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Projected benefit obligation at the beginning of the fiscal year | ¥87,447 | ¥ 91,576 | $763,133 |
| Cumulative effects of changes in accounting policies | — | 13,101 | 109,175 |
| Restated balance | 87,447 | 104,677 | 872,308 |
| Service costs | 3,297 | 4,711 | 39,259 |
| Interest cost on projected benefit obligation | 1,707 | 802 | 6,683 |
| Actuarial differences incurred | (335) | (167) | (1,392) |
| Payment of retirement benefit | (7,553) | (7,193) | (59,941) |
| Increase due to changes in consolidated subsidiaries | 7,013 | — | — |
| Projected benefit obligation at the end of the fiscal year | ¥91,576 | ¥102,830 | $856,917 |

**(2) Reconciliation of the plan assets between the beginning of the fiscal year and the end of the fiscal year is as follows (Except for the simplified method in calculating the projected benefit obligation):**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Plan assets at the beginning of the fiscal year | ¥49,280 | ¥54,205 | $451,708 |
| Expected return on plan assets | 1,297 | 1,388 | 11,567 |
| Actuarial differences incurred | 2,092 | 3,429 | 28,575 |
| Contribution by the Companies | 2,359 | 2,665 | 22,208 |
| Payment of retirement benefit | (4,895) | (4,596) | (38,300) |
| Increase due to changes in consolidated subsidiaries | 4,071 | — | — |
| Plan assets at the end of the fiscal year | ¥54,204 | ¥57,091 | $475,758 |

**(3) Reconciliation of the net defined benefit liability adopting the simplified method in calculating the projected benefit obligation between the beginning of the fiscal year and the end of the fiscal year is as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Net defined benefit liability at the beginning of the fiscal year | ¥3,474 | ¥3,712 | $30,934 |
| Severance and retirement benefit expenses | 661 | 610 | 5,083 |
| Payment of retirement benefit | (370) | (382) | (3,183) |
| Contribution by the Companies | (85) | (98) | (817) |
| Increase due to changes in consolidated subsidiaries | 32 | (11) | (92) |
| Plan assets at the end of the fiscal year | ¥3,712 | ¥3,831 | $31,925 |

**(4) Reconciliation of the projected benefit obligation and pension assets between net defined benefit liability and net defined benefit asset is as follows (Included the simplified method in calculating the projected benefit obligation):**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Projected benefit obligation of the funded pension plan | ¥ 55,278 | ¥ 61,368 | $ 511,400 |
| Plan assets | (55,489) | (58,427) | (486,892) |
| | (211) | 2,941 | 24,508 |
| Projected benefit obligation of the unfunded pension plan | 41,295 | 46,629 | 388,575 |
| Net defined benefit liability and assets on the consolidated balance sheets | 41,084 | 49,570 | 413,083 |
| Net defined benefit liability | 43,680 | 51,736 | 431,133 |
| Net defined benefit assets | (2,596) | (2,166) | (18,050) |
| Net defined benefit liability and assets on the consolidated balance sheets | ¥ 41,084 | ¥ 49,570 | $ 413,083 |

### (5) Components of severance and retirement benefit expenses are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Service costs | ¥ 3,512 | ¥ 4,824 | $40,200 |
| Interest cost on projected benefit obligation | 1,707 | 802 | 6,683 |
| Expected return on plan assets | (1,297) | (1,388) | (11,567) |
| Amortization of actuarial difference | 3,434 | 3,002 | 25,017 |
| Amortization of prior service costs | (1,612) | (1,369) | (11,408) |
| Amortization of net transition obligation | 3,739 | 3,668 | 30,567 |
| Severance and retirement benefit expenses adopting the simplified method in calculating the projected benefit obligation | 661 | 610 | 5,083 |
| Severance and retirement benefit expenses related to contributory defined benefit pension plan | ¥10,144 | ¥10,149 | $84,575 |

### (6) Remeasurements of defined benefit plans (before deducted tax effects)

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Prior service costs | ¥— | ¥(1,369) | $(11,409) |
| Actuarial differences | — | 6,635 | 55,292 |
| Net transition obligation | — | 3,668 | 30,567 |
| Total | ¥— | ¥ 8,934 | $ 74,450 |

### (7) Accumulated remeasurements of defined benefit plans (before deducted tax effects)

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| Unrecognized prior service costs | ¥(11,886) | ¥(10,466) | $(87,217) |
| Unrecognized actuarial differences | 12,375 | 5,726 | 47,717 |
| Unrecognized net transition obligation | 3,932 | 264 | 2,200 |
| Total | ¥ 4,421 | ¥ (4,476) | $(37,300) |

### (8) Pension assets

Proportions of major components of plan assets are as follows:

| | 2014 | 2015 |
|---|---|---|
| Equity | 24.10% | 23.80% |
| Bonds | 26.30% | 27.10% |
| Cash and deposits | 0.90% | 0.80% |
| General account of life insurance company | 36.20% | 36.20% |
| Other | 12.50% | 12.10% |
| Total | 100.00% | 100.00% |

Expected return on pension plan assets is determined considering current and future portfolio of pension assets and current and future expected return on various assets.

### (9) Actuarial assumptions

The discount rate used by the Group in the year ended March 31, 2014 and 2015 was mainly 2.0% and 0.8%. The rate of expected return on plan assets used by the Group in the year ended March 31, 2014 and 2015 was 2.5%, respectively.

Defined contribution pension plan

The amount required to be contributed by the consolidated subsidiaries is ¥127 million and ¥124 million ($1,033 thousand) for the years ended March 31, 2014 and 2015.

## 10. Contingent liabilities

At March 31, 2014 and 2015, the Group was contingently liable for guarantees of loans in the amounts of ¥4,219 million and ¥4,002 million ($33,350 thousand), respectively. Notes endorsed or discounted at March 31, 2014 and 2015 aggregated ¥21 million and ¥67 million ($558 thousand), respectively.

## 11. Net assets

Under the Japanese Corporate Law ("the Law") 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 price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an 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.

Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 26, 2015 the shareholders approved cash dividends amounting to ¥3,203 million ($26,692 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2015. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 12. Financial instruments

***(a) Outline of Utilization of Financial Instruments***

(1) Management policies for financial instruments

The Group invests funds mainly only into short-term deposits. The Group borrows money from banks or raise money by issuing bonds. TOBU Shared Service Co., Ltd., a consolidated subsidiary, manages the fund of the Group comprehensively under Cash Management System, which serves for effective fund operations by matching fund supply with fund demand. Derivatives are utilized for hedging loans payable against interest fluctuation risks and foreign currency exchange rate fluctuation risks and not for trading or speculative purposes.

(2) Contents of financial instruments, their risks and risk control system

Trade receivables-notes and accounts are exposed to credit risks of customers. The Group practices credit assessment as for each customer and monitor collections and balance amounts periodically, under the credit control procedures established by each company of the Group.

Listed equity shares of investment securities are exposed to market fluctuation risks. These shares are mainly issued by companies which have business relations with the Group and their market prices are monitored quarterly.

Trade payables-notes and accounts are mainly due within one year.

Short-term borrowings and bonds are mainly used for procurement of working capital. Long-term debt and bonds are used for capital investments. The Group has a policy of hedging risks with a part of these liabilities exposed to interest fluctuation by derivative transactions such as interest rate swap contracts and interest rate cap contracts.

(3) Supplemental information on fair value

Market fair values of financial instruments include the market prices and the values estimated rationally in case market prices are not available. As the calculation of the values is subject to certain presumptions, they may change under the different presumptions.

***(b) Fair Market Value of Financial Instruments***

The book value, fair market values and differences as of March 31, 2014 and 2015 are shown below.

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | **2015** | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Short-term borrowings | ¥ 46,917 | ¥ 46,917 | ¥ — | **¥139,705** | **¥139,705** | **¥ —** |
| Current-portion of long-term debt | 71,994 | 72,242 | 248 | **60,513** | **60,766** | **253** |
| Current-portion of bonds | 29,800 | 29,949 | 149 | **26,470** | **26,558** | **88** |
| Bonds | 129,670 | 133,202 | 3,532 | **133,000** | **137,111** | **4,111** |
| Long-term debt | 452,957 | 467,052 | 14,095 | **430,234** | **444,716** | **14,482** |
| Total | ¥731,338 | ¥749,362 | ¥18,024 | **¥789,922** | **¥808,856** | **¥18,934** |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | **2015** | | |
| | Book value | Fair value | Difference |
| Short-term borrowings | **$1,164,208** | **$1,164,208** | **$ —** |
| Current-portion of long-term debt | **504,275** | **506,383** | **2,108** |
| Current-portion of bonds | **220,584** | **221,317** | **733** |
| Bonds | **1,108,333** | **1,142,592** | **34,259** |
| Long-term debt | **3,585,283** | **3,705,967** | **120,684** |
| Total | **$6,582,683** | **$6,740,467** | **$157,784** |

(1) Calculation of fair market values of financial instruments

Short-term borrowings:

Because all of the balances are paid off in short-term, fair market values are considered to be close to book values, and as such the book values are deemed as fair values.

Long-term loans and its current portion:

Because the interest rate reflects market interest timely and credit conditions of the Group have not changed significantly after time of borrowings, fair market values are considered to be close to book values. Therefore, the book values of long-term loans with variable rate are deemed as fair values. Fair values of long-term loans with fixed interest are calculated by discounting total principals and interest at estimated interest rate of current similar borrowing.

Bonds payable and its current portion:

Fair market values of bonds payable are measured at market prices.

(2) Maturities of bonds and long-term bank debt as of March 31, 2015

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| Year ending March 31 | Bonds | Bank debt | Total | Bonds | Bank debt | Total |
| 2016 | ¥26,470 | ¥ 60,513 | ¥ 86,983 | $220,583 | $ 504,275 | $ 724,858 |
| 2017 | 31,000 | 65,477 | 96,477 | 258,334 | 545,642 | 803,976 |
| 2018 | 23,600 | 58,206 | 81,806 | 196,667 | 485,050 | 681,717 |
| 2019 | 10,000 | 42,607 | 52,607 | 83,334 | 355,058 | 438,392 |
| 2020 | 9,700 | 49,536 | 59,236 | 80,833 | 412,800 | 493,633 |
| 2021 and thereafter | 58,700 | 214,408 | 273,108 | 489,167 | 1,786,733 | 2,275,900 |

## 13. Lease transactions

**(Lessee)**

Finance leases which do not transfer ownership for which contracts were concluded prior to March 31, 2008, will be accounted for by a method corresponding to that used for ordinary operating lease contracts.

Information for non-capitalized finance leases at March 31, 2014 and 2015 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| The Group as lessee | 2014 | **2015** | **2015** |
| Original lease obligations for machinery and equipment and other (including finance charges) | ¥1,657 | **¥680** | **$5,667** |
| Minimum lease payments due within one year | ¥ 56 | **¥ 57** | **$ 475** |
| Minimum lease payments due after one year | 135 | **76** | **633** |
| Total | ¥ 191 | **¥133** | **$1,108** |

Lease payments under such leases for the years ended March 31, 2014 and 2015 were ¥27 million and ¥4 million ($33 thousand), respectively.

Information for operating leases at March 31, 2014 and 2015 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| The Group as lessee | 2014 | **2015** | **2015** |
| Minimum lease payments due within one year | ¥ 9,175 | **¥1,398** | **$11,650** |
| Minimum lease payments due after one year | 24,548 | **7,127** | **59,392** |
| Total | ¥33,723 | **¥8,525** | **$71,042** |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| The Group as lessor | 2014 | **2015** | **2015** |
| Minimum lease payments due within one year | ¥ 1,102 | **¥ 1,270** | **$ 10,583** |
| Minimum lease payments due after one year | 9,528 | **10,941** | **91,175** |
| Total | ¥10,630 | **¥12,211** | **$101,758** |

## 14. Asset retirement obligations

Asset retirement obligations as of March 31, 2014 and 2015 are as follows:

(1) Outline of asset retirement obligations

Mainly disposal costs of asbestos and a drop of waste products of polychlorinated biphenyl included in tangible fixed assets in the fiscal years ended March 31, 2014 and 2015.

(2) Calculation method of asset retirement obligations

The Group has posted the disposition costs based on a reasonable estimation in the fiscal years ended March 31, 2014 and 2015.

(3) Change in the total amount of asset retirement obligations

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Balance at beginning of year | ¥1,825 | **¥2,950** | **$24,582** |
| Increased amount due to acquisition of tangible fixed assets | — | **557** | **4,642** |
| Increased amount due to changes in accounting estimate | 1,250 | **—** | **—** |
| Decrease due to execution of asset retirement obligations | (173) | **(187)** | **(1,558)** |
| Other increase or decrease | 48 | **8** | **67** |
| Balance at end of year | ¥2,950 | **¥3,328** | **$27,733** |

## 15. Investment and rental property

The Company owns rental office buildings and commercial facilities (both including land) in Tokyo and other areas for the purpose of gaining rental revenue. In the fiscal years ended March 31, 2014 and 2015, the amounts of net income related to rental property were ¥5,034 million and ¥7,076 million ($58,967 thousand) and in the fiscal years ended March 31, 2014 and 2015, the amounts of impairment loss on fixed assets were ¥691 million and ¥258 million ($2,150 thousand) for the years ended March 31, 2014 and 2015. Rental income is recognized in revenues from operations, and rental expense is charged to operating expenses.

The book value, fair values and their calculation method related to investment and rental property, are as follows:

| Millions of Yen | | | | | | | | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Book value | | | Fair value | Book value | | | Fair value | Book value | | | Fair value |
| 2013 | Difference | 2014 | 2014 | 2014 | Difference | **2015** | **2015** | 2014 | Difference | **2015** | **2015** |
| ¥163,005 | ¥2,174 | ¥165,179 | ¥199,841 | ¥165,179 | ¥(260) | **¥164,919** | **¥203,041** | $1,376,492 | $(2,167) | **$1,374,325** | **$1,692,008** |

(1) The book value is the amount after accumulated depreciation and impairment loss on fixed assets have been deducted from acquisition cost.

(2) Regarding difference above the table, the increase was principally land and building in Yaesu area (¥5,828 million) and building in Kawarazone, Koshigaya city (¥1,044 million) and the decrease was mainly attributable to depreciation expenses (¥5,577 million) for the year ended March 31, 2014 and the increase was principally, Tobu Toyosu building (¥1,740 million, $14,500 thousand), TOKYO SKYTREE TOWN (¥1,473 million, $12,275 thousand) and ShinKoshigaya building (¥1,089 million, $9,075 thousand) and the decrease was mainly attributable to depreciation expenses (¥5,614 million, $46,783 thousand) for the year ended March 31, 2015.

(3) Calculation method for fair value

Fair values at the end of this fiscal year is an amount gained through the computation we performed reasonable adjustment by use of the real estate appraisal benchmarks based on "Japanese Real Estate Appraisal Standards" and indicators, etc. In addition, the fair value of new real estate acquired during the fiscal year is determined based on figures listed in consolidated balance sheets since changes in fair value are considered to be minimal.

## 16. Segment information

*(a) Segment information*

**(1) General information about reportable segments**

The reported segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and which are regularly examined by the Board of Directors for decisions on the allocation of management resources and for assessing business performance.

The Company diversifies business and engages in transportation, leisure, real estate, retail distribution business with subsidiaries and affiliates.

On the basis of these segments, therefore, the Company has decided to make five units, Transportation, Leisure, Real estate, Retail distribution, and Other.

In transportation segment the Group engages in passenger transportation mainly by railway, bus and taxi. In leisure segment the Group engages in operation of hotels, food and drink sales, operation of amusement/gaming facilities and operation of SKYTREE. In real estate segment the Group engages in development and sale of real estate, leasing of real estate. In retail distribution segment the Group engages in retail sales and operation of shopping centers. In other segment engages in engineering, building construction and other services.

**(2) Basis of measurement about reported segment operating revenues, profit or loss, assets and other material items**

Accounting procedures for reportable segments are the same as contained in Basis of Presenting Consolidated Financial Statements. Reportable segment profit figures are on an operating income basis. Intersegment revenues and transfers are based on the prevailing market price.

**(3) Information about reported segment operating revenues, profit or loss, assets and other material items**

Segment information for the fiscal year ended March 31, 2014 is as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| | Transportation | Leisure | Real estate | Retail distribution | Other | Adjustments | Consolidated financial statements |
| 2014 | | | | | | | |
| Operating revenues: | | | | | | | |
| Operating revenues attributable to outside customers | ¥213,620 | ¥ 73,467 | ¥ 45,486 | ¥205,332 | ¥ 55,744 | ¥ — | ¥ 593,649 |
| Intersegment operating revenues or transfers | 3,041 | 1,744 | 18,381 | 2,478 | 40,317 | (65,961) | — |
| Total | 216,661 | 75,211 | 63,867 | 207,810 | 96,061 | (65,961) | 593,649 |
| Segment income (loss) | 30,062 | 12,078 | 8,077 | 1,485 | 5,215 | (904) | 56,013 |
| Segment assets | 811,845 | 176,125 | 408,139 | 101,689 | 191,604 | (208,464) | 1,480,938 |
| Other material items: | | | | | | | |
| Amortization of goodwill | 22 | 376 | — | — | — | 31 | 429 |
| Depreciation and amortization | 33,376 | 6,067 | 9,334 | 2,503 | 1,390 | — | 52,670 |
| Impairment losses on fixed assets | — | — | 989 | — | 94 | — | 1,083 |
| Increase in property and equipment and intangible assets | ¥ 39,976 | ¥ 15,048 | ¥ 12,267 | ¥ 3,082 | ¥ 1,677 | ¥ — | ¥ 72,050 |

Segment profit or loss adjustment was intersegment eliminations.

Segment assets adjustments included intersegment eliminations as well as corporate assets amounting to ¥78,758 million. This consisted mainly of cash and securities.

Segment profit or loss is adjusted with operating income in the consolidated statements of income.

Segment information for the fiscal year ended March 31, 2015 is as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| | Transportation | Leisure | Real estate | Retail distribution | Other | Adjustments | Consolidated financial statements |
| **2015** | | | | | | | |
| Operating revenues: | | | | | | | |
| Operating revenues attributable to outside customers | **¥208,715** | **¥ 77,885** | **¥ 38,605** | **¥202,218** | **¥ 55,846** | **¥ —** | **¥ 583,269** |
| Intersegment operating revenues or transfers | **3,246** | **1,728** | **18,204** | **2,838** | **39,789** | **(65,805)** | **—** |
| Total | **211,961** | **79,613** | **56,809** | **205,056** | **95,635** | **(65,805)** | **583,269** |
| Segment income (loss) | **30,941** | **7,999** | **9,511** | **634** | **4,701** | **(627)** | **53,159** |
| Segment assets | **910,054** | **175,337** | **415,534** | **106,463** | **206,830** | **(217,493)** | **1,596,725** |
| Other material items: | | | | | | | |
| Amortization of goodwill | **1** | **1,127** | **—** | **—** | **—** | **25** | **1,153** |
| Depreciation and amortization | **31,820** | **5,971** | **9,722** | **2,630** | **1,486** | **—** | **51,629** |
| Impairment losses on fixed assets | **—** | **9** | **793** | **—** | **23** | **—** | **825** |
| Increase in property and equipment and intangible assets | **¥132,574** | **¥ 3,711** | **¥ 26,787** | **¥ 2,203** | **¥ 3,524** | **¥ —** | **¥ 168,799** |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | Consolidated financial statements |
| | Transportation | Leisure | Real estate | Retail distribution | Other | Adjustments | |
| **2015** | | | | | | | |
| Operating revenues: | | | | | | | |
| Operating revenues attributable to outside customers | **$1,739,292** | **$ 649,042** | **$ 321,708** | **$1,685,150** | **$ 465,383** | **$ —** | **$ 4,860,575** |
| Intersegment operating revenues or transfers | **27,050** | **14,400** | **151,700** | **23,650** | **331,575** | **(548,375)** | **—** |
| Total | **1,766,342** | **663,442** | **473,408** | **1,708,800** | **796,958** | **(548,375)** | **4,860,575** |
| Segment income (loss) | **257,842** | **66,659** | **79,258** | **5,283** | **39,175** | **(5,225)** | **442,992** |
| Segment assets | **7,583,784** | **1,461,142** | **3,462,783** | **887,192** | **1,723,583** | **(1,812,442)** | **13,306,042** |
| Other material items: | | | | | | | |
| Amortization of goodwill | **8** | **9,392** | **—** | **—** | **—** | **208** | **9,608** |
| Depreciation and amortization | **265,167** | **49,758** | **81,017** | **21,917** | **12,383** | **—** | **430,242** |
| Impairment losses on fixed assets | **—** | **75** | **6,608** | **—** | **192** | **—** | **6,875** |
| Increase in property and equipment and intangible assets | **$1,104,783** | **$ 30,925** | **$ 223,225** | **$ 18,358** | **$ 29,367** | **$ —** | **$ 1,406,658** |

Segment profit or loss adjustment was intersegment eliminations.

Segment assets adjustments included intersegment eliminations as well as corporate assets amounting to ¥86,105 million ($717,542 thousand). This consisted mainly of cash and securities.

Segment profit or loss is adjusted with operating income in the consolidated statements of income.

***(b) Related information***

**(1) Information about products and services**

Because this information is presented under segment information, it has been omitted.

**(2) Information about geographic areas**

(Operating revenues)

Because operating revenues from customers in Japan were over 90% in the consolidated statements of income, it has been omitted.

(Tangible fixed assets)

Because tangible fixed assets in Japan were over 90% of property and equipment in the consolidated balance sheets, it has been omitted.

**(3) Information about major customers**

Of operating revenues that was attributable to outside customers, no single customer accounted for operating revenue of 10% or more in the consolidated statement of income. Therefore this item is not presented.

***(c) Information about reportable segment impairment loss on fixed assets***

Consolidated fiscal years ended March 31, 2014 and 2015

Because this information is presented under segment information, it has been omitted.

***(d) Information about reportable segment amortization of goodwill and unamortized balance***

Consolidated fiscal year ended March 31, 2014

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| Goodwill | Transportation | Leisure | Real estate | Retail distribution | Other | Corporate or elimination | Total |
| Amortization | ¥22 | ¥ 376 | ¥— | ¥— | ¥— | ¥ 31 | ¥ 429 |
| Unamortized balance | — | 10,891 | — | — | — | 412 | 11,303 |

Because amortization and unamortized balance of negative goodwill resulting from business combination before April 1, 2010 are not material, this information has been omitted.

Consolidated fiscal year ended March 31, 2015

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| Goodwill | Transportation | Leisure | Real estate | Retail distribution | Other | Corporate or elimination | Total |
| Amortization | **¥ 1** | **¥1,127** | **¥—** | **¥—** | **¥—** | **¥ 25** | **¥ 1,153** |
| Unamortized balance | **—** | **9,764** | **—** | **—** | **—** | **387** | **10,151** |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reportable segments | | | | | | |
| Goodwill | Transportation | Leisure | Real estate | Retail distribution | Other | Corporate or elimination | Total |
| Amortization | **$ 8** | **$ 9,392** | **$—** | **$—** | **$—** | **$ 208** | **$ 9,608** |
| Unamortized balance | **—** | **81,367** | **—** | **—** | **—** | **3,225** | **84,592** |

Because amortization and unamortized balance of negative goodwill resulting from business combination before April 1, 2010 are not material, this information has been omitted.

***(e) Information about reportable segment gain on negative goodwill***

Consolidated fiscal years ended March 31, 2014 and 2015

Because this information is not material, it has been omitted.

## 17. Income taxes

The Group is subject to a number of taxes based on taxable income, which, in the aggregate, indicate a statutory rate in Japan of approximately 37.7% and 35.4% for the years ended March 31, 2014 and 2015, respectively.

For the year ended March 31, 2014, the difference between the actual effective income tax rate after applying tax effect accounting and the aggregate standard effective tax rate was less than 5% of the aggregate standard effective tax rate. In view of its insignificant size, the difference is not discussed here.

The following table summarizes the significant differences between the actual effective income tax rate after applying tax effect accounting and the aggregate standard effective tax rate for the year ended March 31, 2015:

| | **2015** |
|---|---|
| Aggregate standard effective tax rate | **35.40%** |
| Valuation allowance | **5.80%** |
| Income tax rate change | **1.30%** |
| Inhabitants taxes per capita | **0.80%** |
| Non-deductible expenses | **0.30%** |
| Other | **0.80%** |
| Effective income tax rate | **44.50%** |

Significant components of the Groups' deferred income tax assets and liabilities as of March 31, 2014 and 2015 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 2,692 | **¥ 3,053** | **$ 25,442** |
| Net defined benefit liability | 14,135 | **16,075** | **133,958** |
| Devaluations of land from corporate split of an affiliate | 5,607 | **5,318** | **44,317** |
| Transfer from land revaluation by impairment loss | 1,190 | **998** | **8,317** |
| Impairment loss on fixed assets | 4,125 | **3,547** | **29,558** |
| Elimination of unrealized profit from inventory | 2,563 | **2,647** | **22,058** |
| Other | 8,689 | **8,921** | **74,342** |
| Subtotal of deferred tax assets | 39,001 | **40,559** | **337,992** |
| Valuation allowance | (13,689) | **(16,418)** | **(136,817)** |
| Less: amounts offset against deferred tax liabilities | (13,532) | **(13,074)** | **(108,950)** |
| Total deferred tax assets | 11,780 | **11,067** | **92,225** |
| Deferred tax liabilities: | | | |
| Gains on revaluations of assets from corporate split of affiliate | 14,345 | **13,405** | **111,708** |
| Net unrealized holding gains on securities | 8,742 | **13,926** | **116,050** |
| Gains on revaluations of assets from all fair value method | 681 | **558** | **4,650** |
| Other | 889 | **1,411** | **11,759** |
| Subtotal of deferred tax liabilities | 24,657 | **29,300** | **244,167** |
| Less: amounts offset against deferred tax assets | (13,532) | **(13,074)** | **(108,950)** |
| Total deferred tax liabilities | 11,125 | **16,226** | **135,217** |
| Net deferred tax assets (liabilities) | ¥ 655 | **¥ (5,159)** | **$ (42,992)** |

(Additional information)

"Act on Partial Amendment to the Income Tax Act, etc." (Act No. 9, 2015) and "Act on Partial Amendment to the Local Tax Act, etc." (Act No. 2, 2015) were promulgated on March 31, 2015, and the corporate tax rate and other rates have been lowered from the fiscal year beginning on or after April 1, 2015.

Due to this change, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 35.4%. The rate of 32.8% has been applied to the temporary differences, expected to be either deductible, taxable or expired in the fiscal year beginning on April 1, 2015, while the rate of 32.1% has been applied to the temporary differences, expected to be either deductible, taxable, or expired in or after the fiscal year beginning on April 1, 2016.

As a result of this change, deferred tax assets in investments and other assets increased by ¥49 million ($408 thousand), deferred tax assets in current assets decreased by ¥116 million ($975 thousand), deferred tax liabilities in non-current liabilities decreased by ¥757 million ($6,308 thousand), deferred tax liabilities related to land revaluation decreased by ¥5,394 million ($44,950 thousand), unrealized gains on available-for-sale securities, net of taxes increased by ¥1,254 million ($10,450 thousand), land revaluation difference, net of taxes increased by ¥5,394 million ($44,950 thousand), remeasurements of defined benefit plans increased by ¥161 million ($1,342 thousand) and deferred income taxes increased by ¥725 million ($6,042 thousand) for the fiscal year ended March 31, 2015.

## 18. Loan commitments

The Company has loan commitment line agreements with six banks at March 31, 2014 and 2015 as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Total loan commitments | ¥90,000 | **¥72,000** | **$600,000** |
| Loans extended | 13,050 | **13,635** | **113,625** |
| Remaining commitments | ¥76,950 | **¥58,365** | **$486,375** |

## 19. Related party transactions

For the fiscal year ended March 31, 2014, related party transactions are as follows:

| Type | Name | Business or Occupation | Voting interest in the Company | Relation to relevant party | Description of the transactions | Transaction Amount (Millions of yen) Note 2 | Account | Balance (Millions of yen) |
|---|---|---|---|---|---|---|---|---|
| Officer and next of kin | Hiromichi Furusawa | Managing Director | — | Sale of real estate | House and lot selling Note 1 | ¥38 | — | ¥— |
| Officer and next of kin | Yutaka Iwase | Director | Directory 0.0% | Sale of real estate | House and lot selling | 17 | — | — |

Notes: 1. Said transactions was carried out by Hiromichi Furusawa's next of kin.
2. The conditions of transactions such as price are proposed by the Company in view of market value and decided on a negotiation basis.

For the fiscal year ended March 31, 2015, there are no related party transactions:

## 20. Subsequent events

***Cash dividends***

Appropriation of retained earnings for the years ended March 31, 2014 and 2015 were duly approved at the ordinary shareholders' meeting held on June 27, 2014 and June 26, 2015 as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2014 | **2015** | **2015** |
| Cash dividends (¥3.00 per share on 2014 and 2015) | ¥3,204 | **¥3,203** | **$26,692** |

The above dividends are payable to shareholders of record as of the end of each fiscal year, and they are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained.

## Independent Auditor's Report

To the Board of Directors of TOBU RAILWAY CO., LTD.:

We have audited the accompanying consolidated financial statements of TOBU RAILWAY CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, 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 misstatements, 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 TOBU RAILWAY CO., LTD. and its consolidated subsidiaries as at March 31, 2015 and 2014, 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, 2015 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 to the consolidated financial statements.

August 19, 2015
Tokyo, Japan

KPMG AZSA LLC

# Corporate Directory

## Board of Directors and the Audit & Supervisory Board (As of July 1, 2015)

**President and Representative Director**
Yoshizumi Nezu

**Vice President and Representative Director**
Kenichi Tsunoda
Zengo Takeda

**Senior Managing Director and Representative Director**
Osamu Makino
Shinji Inomori

**Managing Directors**
Kazuhiko Hirata
Hiroaki Miwa

**Directors**
Akihiro Ojiro
Yasuyoshi Okuma
Yutaka Tsuzuki
Yoshimi Yokota
Koichi Sekiguchi
Toshiaki Koshimura
Yutaka Iwase
Noriko Yagasaki

**Audit & Supervisory Board Members**
Naotaka Nakajima (Standing)
Ikuo Toyoda (Standing)
Osamu Shoda
Yuzaburo Mogi
Takashi Kobayashi

## Investor Information (As of March 31, 2015)

**TOBU RAILWAY CO.,LTD.**
**Registered Office:**
1-2 Oshiage 1-chome, Sumida-ku,
Tokyo 131-8522, Japan
http://www.tobu.co.jp/

**Head Office:**
18-12 Oshiage 2-chome, Sumida-ku,
Tokyo 131-8522, Japan

**Date of Establishment:**
November 1897

**Number of Employees:**
4,305

**Common Stock:**
¥102,136 million

**Number of Shareholders:**
71,550

**Principal Shareholders:**

| Name | Number of Shares Held (Thousands) | Percentage of Total Shares in Issue |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (trust account) | 50,045 | 4.65 |
| Japan Trustee Services Bank, Ltd. (trust account) | 33,309 | 3.09 |
| Fukoku Mutual Life Insurance Company | 32,000 | 2.97 |
| Mizuho Bank, Ltd. | 23,266 | 2.16 |
| Nippon Life Insurance Company | 17,712 | 1.64 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 17,523 | 1.62 |
| STATE STREET BANK WEST CLIENT- TREATY 505234 | 15,628 | 1.45 |
| Saitama Resona Bank, Limited | 12,708 | 1.18 |
| Japan Trustee Services Bank, Ltd. (trust account 7) | 11,239 | 1.04 |
| Japan Trustee Services Bank, Ltd. (trust account 1) | 11,183 | 1.03 |

**Securities Traded:**
Common Stock
Tokyo Stock Exchange, 1st Section

**Transfer Agent and Registrar:**
Sumitomo Mitsui Trust Bank, Limited
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

**Annual Meeting of Shareholders:**
The annual meeting of shareholders is normally held in June.

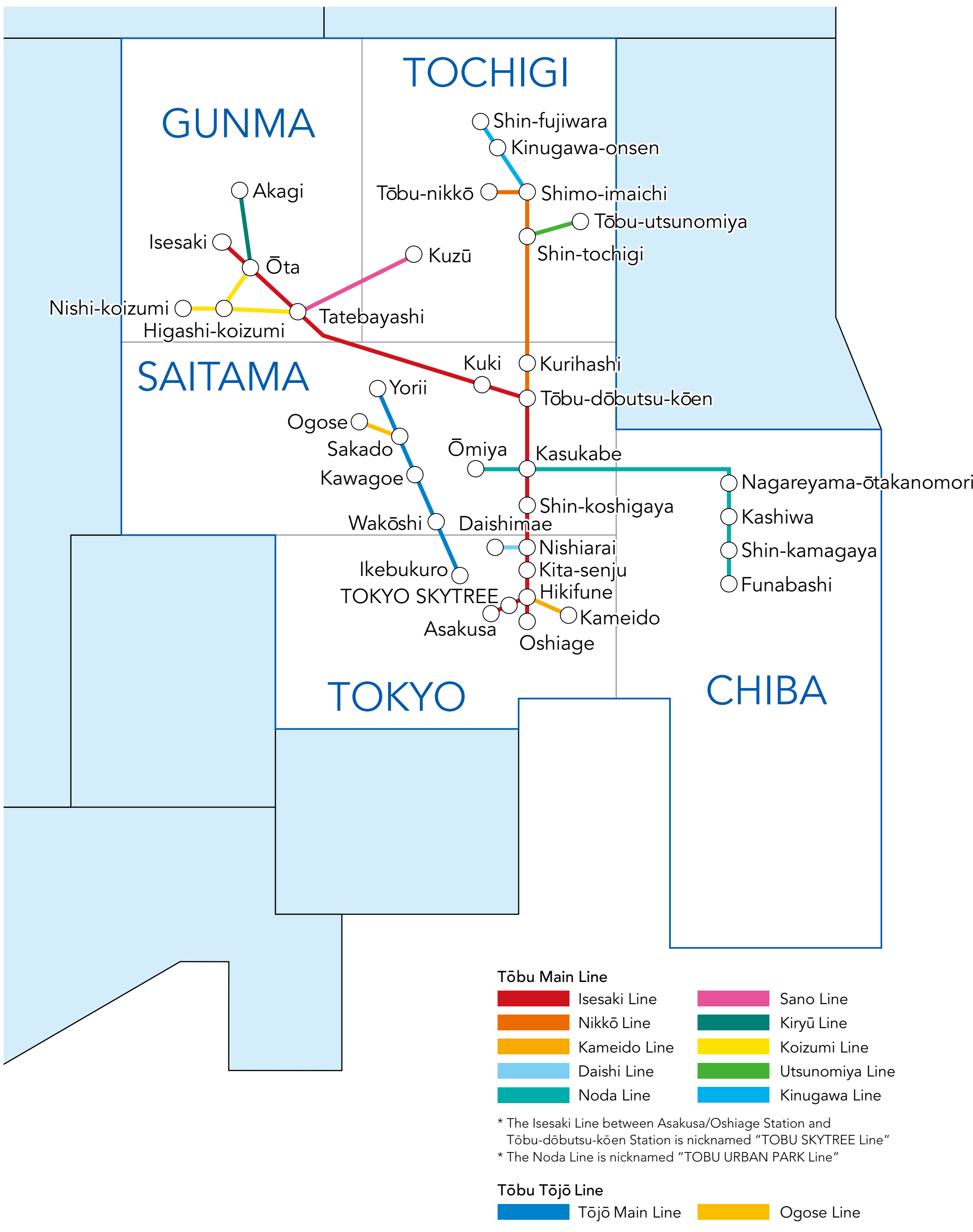
# TOBU RAILWAY CO.,LTD.

**Head Office:**

18-12 Oshiage 2-chome, Sumida-ku, Tokyo 131-8522, Japan

http://www.tobu.co.jp/

## Tobu Railway Lines (major stations only)

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