

# Tokyu Corporation

## Consolidated Financial Statements First Quarter of the Fiscal Year Ending March 31, 2017

(April 1, 2016 – June 30, 2016)

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product and service launches, and pricing and product initiatives of competitors.

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# 1. Qualitative Information on Consolidated Financial Results, etc. for the First Quarter Ended June 30, 2016

## (1) Explanation about Consolidated Financial Results

Tokyu Corporation (the “Company”) and its consolidated subsidiaries (collectively the “Group”) began promoting a three-year medium-term business plan referred to as “Steps to the Next Stage.” The aim of this plan is to enhance both profitability and efficiency by strengthening existing businesses and projects, actively moving into new areas where the Group can leverage its strengths, and conducting focused investments in growth areas, while at the same time ensuring that the Group remains financially sound. Working in line with this plan, the Group intends to make a great leap forward in the future.

Operating revenue for the first quarter of the fiscal year under review stood at ¥269,939 million (up 5.2% year on year), with the real estate leasing business performing well and Tokyu Recreation Co., Ltd. becoming a consolidated subsidiary in the previous fiscal year. Operating profit rose 12.3% from a year earlier, to ¥22,889 million. Recurring profit increased 15.8%, to ¥22,730 million, largely due to an increase in investment gains from equity method. Profit attributable to owners of parent amounted to ¥18,629 million (up 11.7% year on year).

Operating results on a segmental basis are as follows. The results for individual segments include inter-segment internal revenues or transfers where applicable. The Company presents operating profit for each reported segment as segment profit in this document.

### (i) Transportation

In the Company’s railway operations, the number of commuters carried rose 1.4% year on year in the first quarter under review, and the number of non-commuters carried increased 0.2%. Overall, the number of passengers carried climbed 0.9%. This was primarily attributable to the effect of opening Futako-Tamagawa Rise phase II.

As a result, operating revenue for the Transportation segment amounted to ¥50,193 million (up 2.6% year on year). Operating profit for the segment fell 6.5% year on year, to ¥9,019 million chiefly due to an increase in expenses in the Company’s railway operations.

(Operation results of Tokyu Corporation’s railway operations)

Categories		Units	First quarter of the previous fiscal year	First quarter of the fiscal year under review
			April 1, 2015 to June 30, 2015	April 1, 2016 to June 30, 2016
Number of operating days		Days	91	91
Operating distance		Kilometers	104.9	104.9
Operating distance of passenger trains		Thousand kilometers	36,779	37,002
Number of passengers carried	Non-commuter	Thousand passengers	116,238	116,458
	Commuter	Thousand passengers	177,935	180,500
	Total	Thousand passengers	294,173	296,958
Passenger revenue	Non-commuter	Million yen	19,041	19,047
	Commuter	Million yen	15,786	16,016
	Total	Million yen	34,827	35,063
Miscellaneous income from railway operations		Million yen	3,294	3,378
Total revenues		Million yen	38,121	38,441
Average passenger revenue per day		Million yen	383	385
Operating efficiency		%	53.0	53.0

(Note) Calculation method of the operating efficiency

$$\text{Operating efficiency} = \frac{\text{Number of passengers carried}}{\text{Operating distance of passenger trains}} \times \frac{\text{Average service distance}}{\text{Average transportation capacity}} \times 100$$

(ii) Real Estate

Operating revenue for the Real Estate segment stood at ¥42,353 million (up 5.5% year on year), primarily reflecting strong rental revenue, especially from Futako-Tamagawa Rise, in the Company's real estate leasing business. Operating profit came to ¥8,546 million (up 50.7% year on year).

(iii) Life Service

In the Life Service segment, operating revenue increased 5.6% from a year earlier, to ¥164,558 million yen. This increase was largely driven by strong sales at the existing stores of Tokyu Store Chain in the chain store operations and higher revenue in the imaging operations, with Tokyu Recreation Co., Ltd. becoming a consolidated subsidiary. Operating profit for the segment came to ¥3,303 million (down 8.9% year on year) mainly due to an increase in expenses at Tokyu Store Chain.

(iv) Hotel and Resort

Operating revenue for the Hotel and Resort segment stood at ¥26,151 million (up 4.6% year on year), reflecting the high occupancy of Tokyu Hotels Co., Ltd. in hotel operations and a rise in average daily rates. Operating profit for the segment amounted to ¥2,023 million (up 39.8% year on year).

## (2) Explanation about Consolidated Financial Position

### Assets

Total assets at the end of the first quarter of the fiscal year under review fell ¥655 million from the end of the previous fiscal year, to ¥2,091,890 million largely because of a decline in trade notes & accounts receivable, despite an increase in tangible fixed assets at the Company.

### Liabilities

Total liabilities at the end of the first quarter of the fiscal year under review fell ¥11,679 million from the end of the previous fiscal year, to ¥1,457,569 million. This was primarily attributable to a decrease in accounts payable-other relating to capital investment, despite an increase in interest bearing debt\* of ¥25,429 million from the end of the previous fiscal year, to ¥962,896 million.

### Net assets

Net assets at the end of the first quarter of the fiscal year under review rose ¥11,023 million from the end of the previous fiscal year, to ¥634,321 million, reflecting the posting of a profit attributable to owners of parent.

\* Interest-bearing debt: the sum of debt, corporate bonds, and commercial papers

## (3) Explanation about the Future Outlook, Including Forecast for Consolidated Earnings

The Company has revised the profit attributable to owners of parent in its consolidated earnings forecasts for the fiscal year ending March 2017 announced on May 13, 2016 to ¥61,000 million (13.0% more than the previous forecast), reflecting changes, including an absorption-type merger with Yokohama Kanazawa Properties Co., Ltd., a wholly owned subsidiary. The forecasts for operating revenue, operating profit, and recurring profit in the full year and the consolidated earnings forecasts for the first two quarters have not been changed.

\* The forecast results presented above are based on information available as of the date of this announcement and assumptions considered reasonable. Actual results may differ materially from forecasts depending on a number of factors.

## **2. Matters Relating to Summary Information (Notes)**

### **(1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement of Revisions**

#### Change in Accounting Policies

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, the Practical Solution on a change in depreciation method due to Tax Reform 2016 (ASBJ PITF No. 32 issued June 17, 2016) has been applied by the Company and its domestic consolidated subsidiaries from the first quarter of the fiscal year under review. The straight-line method has been used for the depreciation of the facilities attached to buildings and structures acquired on or after April 1, 2016 instead of the declining-balance method, which had been used before.

The effect of the change in depreciation method on operating profit, recurring profit, and income before income taxes is minor.

### **(2) Additional Information**

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

From the first quarter of the fiscal year under review, the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26; March 28, 2016) has been applied.

**3. Quarterly Consolidated Financial Statements****(1) Quarterly Consolidated Balance Sheets***Million yen*

Item	As of March 31, 2016	As of June 30, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and deposits	39,614	47,625
Trade notes & accounts receivable	133,442	125,905
Merchandise and products	15,393	16,799
Land and buildings for sale	31,937	31,629
Work in progress	5,821	6,782
Raw materials and supplies	5,921	6,078
Deferred tax assets	7,233	5,075
Others	37,921	33,068
Allowance for doubtful accounts	(812)	(803)
Total current assets	276,472	272,163
<b>Fixed Assets</b>		
Tangible fixed assets		
Buildings & structures (net)	723,130	715,818
Rolling stock & machinery (net)	57,782	55,598
Land	653,977	661,977
Construction in progress	113,806	119,318
Others (net)	24,725	25,093
Total tangible fixed assets	1,573,421	1,577,807
Intangible fixed assets	29,670	31,830
Investments & others		
Investment securities	132,223	130,088
Net defined benefit asset	5,245	5,258
Deferred tax assets	9,626	11,369
Others	66,396	63,935
Allowance for doubtful accounts	(511)	(560)
Total investments and others	212,981	210,090
Total fixed assets	1,816,073	1,819,727
<b>Total Assets</b>	2,092,546	2,091,890

Million yen

Item	As of March 31, 2016	As of June 30, 2016
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade notes & accounts payable	94,824	85,916
Short-term debt	319,531	324,357
Commercial papers	—	10,000
Current portion of corporate bonds	20,000	17,000
Accrued income taxes	20,614	5,072
Provision	12,065	8,401
Advances received	24,777	28,571
Others	116,370	103,845
Total current liabilities	608,183	583,164
<b>Long-Term Liabilities</b>		
Corporate bonds	196,228	209,228
Long-term debt	401,707	402,311
Provision	2,841	2,827
Net defined benefit liability	40,506	40,961
Long-term deposits from tenants and club members	118,556	117,727
Deferred tax liabilities	28,055	27,192
Deferred tax liabilities from revaluation	9,176	9,176
Others	41,402	43,018
Total long-term liabilities	838,474	852,442
<b>Special Legal Reserves</b>		
Urban railways improvement reserve	22,590	21,962
<b>Total Liabilities</b>	1,469,248	1,457,569
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Common stock	121,724	121,724
Capital surplus	131,666	131,669
Retained income	327,405	340,479
Treasury stock	(19,088)	(18,931)
Total shareholders' equity	561,708	574,942
<b>Accumulated Other Comprehensive Income</b>		
Net unrealized gains (losses) on investment securities, net of taxes	12,577	10,674
Net unrealized gains (losses) on hedging instruments, net of taxes	43	18
Land revaluation reserve	8,338	8,338
Foreign currency translation adjustment account	6,835	4,701
Remeasurements of defined benefit plans	(12,630)	(11,716)
Total accumulated other comprehensive income	15,164	12,016
<b>Non-Controlling Interests</b>	46,424	47,362
<b>Total Net Assets</b>	623,297	634,321
<b>Total Liabilities and Net Assets</b>	2,092,546	2,091,890

## (2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statements of Comprehensive Income

### (Quarterly Consolidated Statements of Income)

Million yen

Item	April 1, 2015 to June 30, 2015	April 1, 2016 to June 30, 2016
<b>Operating revenue</b>	256,621	269,939
Cost of operating revenue		
Operating expenses & cost of sales (Transportation, etc.)	188,636	197,697
SG&A expenses	47,596	49,352
Total cost of operating revenue	236,233	247,049
<b>Operating profit</b>	20,388	22,889
Non-operating profit		
Interest income	62	58
Dividend income	389	415
Investment gains from equity method	1,271	1,456
Dividend income of insurance	700	755
Others	551	1,016
Total non-operating profit	2,975	3,702
Non-operating expenses		
Interest expenses	2,785	2,587
Others	947	1,274
Total non-operating expenses	3,733	3,861
<b>Recurring profit</b>	19,631	22,730
Extraordinary gains		
Gains on sale of fixed assets	204	344
Subsidies received for construction	164	138
Gain on reversal of Urban Railways Improvement Reserve	627	627
Gain on transfer of business	605	—
Others	184	7
Total extraordinary gains	1,786	1,116
Extraordinary losses		
Reduction entry of land contribution for construction	149	96
Loss on retirement of fixed assets	259	115
Others	199	142
Total extraordinary losses	608	354
<b>Income before income taxes</b>	20,808	23,492
Corporate income taxes	4,005	4,596
<b>Net income</b>	16,803	18,895
Profit attributable to non-controlling interests	128	266
Profit attributable to owners of parent	16,674	18,629



**(Quarterly Consolidated Statements of Comprehensive Income)***Million yen*

Item	April 1, 2015 to June 30, 2015	April 1, 2016 to June 30, 2016
Net income	16,803	18,895
Other comprehensive income		
Net unrealized gains (losses) on investment securities	2,497	(1,703)
Net unrealized gains (losses) on hedging instruments	0	(0)
Foreign currency translation adjustment account	(598)	(3,360)
Remeasurements of defined benefit plans, net of tax	803	871
Share of other comprehensive income of associates accounted for using equity method	1	28
Total other comprehensive income	2,702	(4,164)
Comprehensive income	19,506	14,731
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	19,397	15,481
Comprehensive income attributable to non-controlling interests	108	(750)

**(3) Notes to Quarterly Consolidated Financial Statements**

(Notes Regarding the Premise of a Going Concern)

There is no applicable item.

(Notes If There Is a Considerable Change to Shareholders' Equity)

There is no applicable item.

(Segment Information)

I. April 1, 2015 to June 30, 2015

1. Information on operating revenue and operating profits or losses by reported segment

Million yen

	Reported segment				Total	Adjustments (Note) 1	Amount posted in the consolidated financial statements (Note) 2
	Transportation	Real Estate	Life Service	Hotel and Resort			
Operating revenue							
Outside customers	48,454	30,673	152,621	24,872	256,621	–	256,621
Inter-segment internal revenues or transfers	451	9,485	3,176	128	13,242	(13,242)	–
Total	48,906	40,159	155,797	25,001	269,864	(13,242)	256,621
Segment profit	9,648	5,671	3,627	1,447	20,395	(7)	20,388

Notes

1. An adjustment of negative ¥7 million in segment profit (loss) represents the deduction of intersegment transactions.
2. Segment profit has been adjusted with operating profit recorded in the consolidated quarterly statements of income.

II. April 1, 2016 to June 30, 2016

1. Information on operating revenue and operating profits or losses by reported segment

Million yen

	Reported segment				Total	Adjustments (Note) 1	Amount posted in the consolidated financial statements (Note) 2
	Transportation	Real Estate	Life Service	Hotel and Resort			
Operating revenue							
Outside customers	49,747	32,663	161,606	25,922	269,939	–	269,939
Inter-segment internal revenues or transfers	445	9,690	2,951	229	13,317	(13,317)	–
Total	50,193	42,353	164,558	26,151	283,256	(13,317)	269,939
Segment profit	9,019	8,546	3,303	2,023	22,892	(2)	22,889

Notes

1. An adjustment of negative ¥2 million in segment profit (loss) represents the deduction of intersegment transactions.
2. Segment profit has been adjusted with operating profit recorded in the consolidated quarterly statements of income.

2. Matters regarding the change of reported segments

As described in 2. Matters Relating to Summary Information (Notes), (1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement of Revisions, from the first quarter of the fiscal year under review, the straight-line method has been applied in place of the declining-balance method for the depreciation of the facilities attached to buildings and structures acquired on or after April 1, 2016. This change in the depreciation method has also been applied to the segment information.

The effect of the change on segment profit (loss) in the first quarter of the consolidated fiscal year under review is minor.