

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2018	30 June 2018	30 June 2018
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 30,855	¥ 30,931	\$ 278,658
Short-term investments	734	861	7,757
Trade notes and accounts receivable	57,808	51,223	461,468
Inventories	70,647	74,240	668,829
Others	18,282	21,125	190,315
Less allowance for doubtful accounts	(290)	(257)	(2,315)
Total current assets	178,036	178,123	1,604,712
Property and equipment:			
Land	362,632	363,814	3,277,604
Buildings and structures	691,180	691,331	6,228,207
Machinery, equipment and vehicles	323,094	325,772	2,934,883
Other properties	68,962	68,937	621,054
Construction in progress	41,167	44,322	399,297
	1,487,035	1,494,176	13,461,045
Less accumulated depreciation	(697,732)	(704,164)	(6,343,820)
Property and equipment, net	789,303	790,012	7,117,225
Investments and other assets:			
Investment securities	80,477	80,425	724,550
Investments in unconsolidated subsidiaries and affiliates	35,656	35,677	321,414
Deferred tax assets (Note 2(b))	13,478	13,362	120,378
Intangible assets	8,804	8,402	75,694
Other assets	16,696	16,742	150,829
Allowance for doubtful accounts	(1,828)	(1,807)	(16,279)
Total investments and other assets	153,283	152,801	1,376,586
Total assets	¥ 1,120,622	¥ 1,120,936	\$ 10,098,523

See Notes to Quarterly Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2018	30 June 2018	30 June 2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 22,500	¥ 24,898	\$ 224,306
Current portion of long-term debt	55,867	55,199	497,288
Trade notes and accounts payable	69,163	56,375	507,883
Accrued expenses	15,669	16,228	146,198
Income taxes payable	9,138	2,643	23,811
Provisions	2,137	2,136	19,243
Other current liabilities	85,212	92,086	829,604
Total current liabilities	259,686	249,565	2,248,333
Non-current liabilities:			
Long-term debt	348,003	353,213	3,182,099
Accrued retirement benefits for directors and corporate auditors	1,324	1,332	12,000
Deferred tax liabilities (Note 2(b))	3,792	3,854	34,721
Deferred tax liabilities for land revaluation (Note 2(b))	56,752	56,712	510,919
Provisions	12,880	13,067	117,721
Employee retirement benefit liability	30,719	30,853	277,955
Other non-current liabilities	17,910	17,721	159,649
Total non-current liabilities	471,380	476,752	4,295,064
Total liabilities	731,066	726,317	6,543,397
Contingent liabilities (Note 3)			
Net assets:			
Shareholders' equity (Note 4):			
Common stock: authorised - 360,000 thousand shares issued - 190,467 thousand shares at 31 March 2018 and 191,613 thousand shares at 30 June 2018	95,149	96,254	867,153
Capital surplus	29,270	30,404	273,910
Retained earnings	117,154	119,656	1,077,982
Treasury stock - at cost: 27 thousand shares at 31 March 2018 and 24 thousand shares at 30 June 2018	(30)	(19)	(171)
Total shareholders' equity	241,543	246,295	2,218,874
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	28,922	28,778	259,261
Deferred gains and losses on hedges	120	245	2,207
Land revaluation increment	88,698	88,616	798,342
Foreign currency translation adjustments	(17)	(25)	(225)
Retirement benefit adjustments	1,074	1,107	9,973
Total accumulated other comprehensive income (loss)	118,797	118,721	1,069,558
Non-controlling interests	29,216	29,603	266,694
Total net assets	389,556	394,619	3,555,126
Total liabilities and net assets	¥ 1,120,622	¥ 1,120,936	\$ 10,098,523

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Income (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Three-month periods ended 30 June		Three-month period ended 30 June 2018
	2017	2018	
Operating revenues (Note 5)	¥ 142,836	¥ 143,091	\$ 1,289,108
Operating expenses			
Transportation, other services and cost of sales	118,433	118,779	1,070,081
Selling, general and administrative expenses	12,867	13,155	118,514
Total operating expenses	131,300	131,934	1,188,595
Operating income	11,536	11,157	100,513
Other income (expenses):			
Interest and dividend income	1,079	1,119	10,081
Interest expense	(948)	(869)	(7,829)
Equity in net earnings of affiliates	646	501	4,514
Impairment loss on fixed assets	(9)	(8)	(72)
Gain on sale or disposition of property and equipment, net	92	62	559
Gain on contributions for construction	47	62	559
Loss on reduction of property and equipment	(44)	(59)	(532)
Provision for loss on liquidation	(13)	(581)	(5,234)
Others, net	122	222	1,999
Other income (expenses), net	972	449	4,045
Profit before income taxes	12,508	11,606	104,558
Income taxes:			
Current	2,842	3,252	29,297
Deferred	714	134	1,207
Total income taxes	3,556	3,386	30,504
Profit	8,952	8,220	74,054
Profit attributable to:			
Owners of the parent	8,262	7,588	68,360
Non-controlling interests	690	632	5,694
Total profit	¥ 8,952	¥ 8,220	\$ 74,054
Per share:			
Net income:			
- Basic	¥ 44.95	¥ 39.80	\$ 0.36
- Diluted	39.25	36.05	0.32
Cash dividends	—	—	—

* The company's common stock was consolidated at the ratio of 5 shares to 1 share with an effective date of 1 October 2017. Accordingly, the net income per share-basic and the net income per share-diluted were calculated based on the assumption that the share consolidation was conducted at the beginning of the fiscal year ended 31 March 2018.

See Notes to Quarterly Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Comprehensive Income (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Three-month periods ended 30 June		Three-month period ended 30 June 2018
	2017	2018	
Profit	¥ 8,952	¥ 8,220	\$ 74,054
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	4,028	(98)	(883)
Deferred gains and losses on hedges	(23)	126	1,135
Foreign currency translation adjustments	(5)	(8)	(72)
Retirement benefit adjustments	217	43	387
Share of other comprehensive income of affiliates accounted for using the equity method	(14)	(34)	(306)
Total other comprehensive income	4,203	29	261
Comprehensive income	¥ 13,155	¥ 8,249	\$ 74,315
Comprehensive income attributable to:			
Owners of the parent	¥ 12,357	¥ 7,593	\$ 68,405
Non-controlling interests	798	656	5,910
Total comprehensive income	¥ 13,155	¥ 8,249	\$ 74,315

See Notes to Quarterly Consolidated Financial Statements.

1. Basis of quarterly consolidated financial statements

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

The accompanying quarterly consolidated financial statements have been restructured and translated into English from the quarterly consolidated financial statements of the Company prepared in accordance with the accounting standard for quarterly financial reporting under Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. In preparing these quarterly consolidated financial statements, certain reclassifications have been made to the quarterly consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language quarterly consolidated financial statements, but not required for fair presentation, is not presented in the accompanying quarterly consolidated financial statements. In addition, certain comparative figures have been reclassified to conform to the current year’s presentation.

The quarterly consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the approximate exchange rate prevailing at 30 June 2018, which was ¥111 to U.S. \$1.00. Such translations should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

The accompanying quarterly consolidated financial statements are prepared based on the same accounting policies as the annual consolidated financial statements. There were no changes in accounting policies that were applied in the accompanying quarterly consolidated financial statements for the three-month periods ended 30 June 2017 and 2018 from those for the years ended 31 March 2017 and 2018.

(a) Basis of consolidation

The accompanying quarterly consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliated companies are accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliated companies not accounted for using the equity method are stated at cost. There were no material changes in the scope of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies accounted for using the equity method for the three-month periods ended 30 June 2017 and 2018 from those for the years ended 31 March 2017 and 2018, respectively.

(b) Additional Information

(Application of Implementation Guidance on Tax Effect Accounting)

The Company and its domestic subsidiaries adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, 16 February 2018, Accounting Standards Board of Japan)” from the beginning of the three-month period ended 30 June 2018.

As a result, all deferred tax assets and liabilities have been classified as “Investments and other assets” and “Non-current liabilities” on the balance sheet, respectively.

3. Contingent liabilities

At 31 March 2018 and 30 June 2018, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2018	30 June 2018	30 June 2018
Contingently liable for:			
Guarantees of loans of others	¥593	¥614	\$5,532
Total	¥593	¥614	\$5,532

4. Net assets

At the ordinary shareholders’ meeting held on 28 June 2017 and 27 June 2018, the shareholders approved cash dividends of ¥5.00 per share and ¥27.50 per share, amounting to ¥4,596 million and ¥5,238 million (\$47,189 thousand), respectively.

The Company consolidated its common stock in the ratio of 5 shares to 1 share with an effective date of 1 October 2017. The cash dividend per share, which included special dividends of ¥2.5, for the fiscal year ended 31 March 2018 was calculated based on the number of shares after the share consolidation.

5. Segment information

The Group is engaged in diversified business activities involving traffic, transport, real estate, leisure, distribution, aviation, equipment maintenance and others. On the basis of the above activities, the Company's reportable segments are "Traffic," "Transport," "Real Estate," "Leisure and Services," "Distribution" and "Aviation Services."

Information about reportable segments for the three-month period ended 30 June 2017 was as follows.

	Reportable segments							Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)			
Millions of yen										
Operating revenues:										
External customers	¥41,480	¥32,198	¥18,249	¥12,601	¥28,877	¥4,887	¥4,544	¥142,836	¥—	¥142,836
Intersegment sales/transfer	564	103	2,622	396	2,842	—	4,414	10,941	(10,941)	—
Total	¥42,044	¥32,301	¥20,871	¥12,997	¥31,719	¥4,887	¥8,958	¥153,777	¥ (10,941)	¥142,836
Segment income (*2)	7,177	1,397	2,550	(9)	352	(1)	(104)	11,362	174	11,536

*1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and the like.

*2) Segment income adjustment amounting to ¥174 million was treated as intersegment elimination.

3) Segment income was reconciled to operating income in the accompanying quarterly consolidated statements of income.

Information about reportable segments for the three-month period ended 30 June 2018 was as follows.

	Reportable segments							Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)			
Millions of yen										
Operating revenues:										
External customers	¥41,624	¥33,701	¥16,092	¥12,051	¥29,555	¥5,197	¥4,871	¥143,091	¥—	¥143,091
Intersegment sales/transfer	553	102	2,685	382	3,011	—	4,070	10,803	(10,803)	—
Total	¥42,177	¥33,803	¥18,777	¥12,433	¥32,566	¥5,197	¥8,941	¥153,894	¥ (10,803)	¥143,091
Segment income (*2)	7,516	1,722	2,061	26	143	(57)	(404)	11,007	150	11,157

	Thousands of U.S. dollars							Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)			
Millions of yen										
Operating revenues:										
External customers	\$374,991	\$303,613	\$144,973	\$108,568	\$266,261	\$46,820	\$43,882	\$1,289,108	\$—	\$1,289,108
Intersegment sales/transfer	4,982	919	24,189	3,441	27,126	—	36,667	97,324	(97,324)	—
Total	\$379,973	\$304,532	\$169,162	\$112,009	\$293,387	\$46,820	\$80,549	\$1,386,432	\$ (97,324)	\$1,289,108
Segment income (*2)	67,712	15,514	18,568	234	1,288	(514)	(3,640)	99,162	1,351	100,513

*1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and the like.

*2) Segment income adjustment amounting to ¥150 million (\$1,351 thousand) was treated as intersegment elimination.

3) Segment income was reconciled to operating income in the accompanying quarterly consolidated statements of income.

(Information Related to Changes in Reportable Segments)

Based on “The new medium-term management plan, BUILD UP 2020,” the company revised its reportable segments from the three-month period ended 30 June 2018. Accordingly, the previous reportable segments “Traffic,” “Transport,” “Real Estate,” “Leisure and Services” and “Distribution” have been changed to “Traffic,” “Transport,” “Real Estate,” “Leisure and Services,” “Distribution” and “Aviation Services.” “Building Maintenance” included in “Others” has been reclassified to “Real Estate.”

Further, the three-month period ended 30 June 2017 information has been prepared and presented based on the new reportable segments.