

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2017	30 September 2017	30 September 2017
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,944	¥ 9,437	\$ 84,259
Short-term investments	759	820	7,321
Trade notes and accounts receivable	57,828	53,967	481,848
Inventories	70,284	70,596	630,321
Deferred tax assets	4,241	4,444	39,679
Others	18,325	19,523	174,313
Less allowance for doubtful accounts	(323)	(306)	(2,732)
Total current assets	173,058	158,481	1,415,009
Property and equipment:			
Land	361,851	363,891	3,249,027
Buildings and structures	683,926	686,810	6,132,232
Machinery, equipment and vehicles	314,249	318,465	2,843,438
Other properties	62,283	64,343	574,491
Construction in progress	33,583	37,391	333,848
	1,455,892	1,470,900	13,133,036
Less accumulated depreciation	(676,977)	(686,857)	(6,132,652)
Property and equipment, net	778,915	784,043	7,000,384
Investments and other assets:			
Investment securities	73,181	82,023	732,348
Investments in unconsolidated subsidiaries and affiliates	33,157	34,148	304,893
Deferred tax assets	11,913	8,771	78,313
Intangible assets	9,157	8,188	73,107
Other assets	16,386	15,497	138,366
Allowance for doubtful accounts	(1,884)	(1,876)	(16,750)
Total investments and other assets	141,910	146,751	1,310,277
Total assets	¥ 1,093,883	¥ 1,089,275	\$ 9,725,670

See Notes to Quarterly Consolidated Financial Statements.

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Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2017	30 September 2017	30 September 2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 20,790	¥ 24,181	\$ 215,902
Current portion of long-term debt	79,673	49,592	442,786
Trade notes and accounts payable	71,411	52,958	472,839
Accrued expenses	15,424	16,460	146,964
Income taxes payable	9,158	7,248	64,714
Provisions	2,257	2,060	18,393
Other current liabilities	80,247	85,467	763,098
Total current liabilities	278,960	237,966	2,124,696
Non-current liabilities:			
Long-term debt	344,138	363,246	3,243,268
Accrued retirement benefits for directors and corporate auditors	1,699	1,146	10,232
Deferred tax liabilities	4,196	4,162	37,161
Deferred tax liabilities for land revaluation	56,672	56,650	505,804
Provisions	13,135	12,676	113,179
Employee retirement benefit liability	34,315	32,563	290,741
Other non-current liabilities	17,955	17,513	156,366
Total non-current liabilities	472,110	487,956	4,356,751
Total liabilities	751,070	725,922	6,481,447
Contingent liabilities (Note 3)			
Net assets:			
Shareholders' equity (Note 4):			
Common stock: authorised - 360,000 thousand shares issued - 183,955 thousand shares at 31 March 2017 and 30 September 2017	88,864	88,864	793,428
Capital surplus	23,156	23,156	206,750
Retained earnings	93,165	105,277	939,973
Treasury stock - at cost: 125 thousand shares at 31 March 2017 and 135 thousand shares at 30 September 2017	(271)	(297)	(2,652)
Total shareholders' equity	204,914	217,000	1,937,499
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	23,908	30,123	268,955
Deferred gains and losses on hedges	(197)	(31)	(277)
Land revaluation increment	88,835	89,002	794,661
Foreign currency translation adjustments	(13)	(18)	(160)
Retirement benefit adjustments	(1,127)	(728)	(6,500)
Total accumulated other comprehensive income (loss)	111,406	118,348	1,056,679
Non-controlling interests	26,493	28,005	250,045
Total net assets	342,813	363,353	3,244,223
Total liabilities and net assets	¥ 1,093,883	¥ 1,089,275	\$ 9,725,670

* The Company has conducted a share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017. Accordingly, Common stock and Treasury stock have been calculated on the assumption that the share consolidation was conducted at the beginning of FY 2017

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Income (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Six-month periods ended 30 September		Six-month period ended 30 September 2017
	2016	2017	
Operating revenues (Note 5)	¥ 292,293	¥ 294,531	\$ 2,629,741
Operating expenses			
Transportation, other services and cost of sales	243,064	243,455	2,173,705
Selling, general and administrative expenses	25,890	25,668	229,179
Total operating expenses	<u>268,954</u>	<u>269,123</u>	<u>2,402,884</u>
Operating income	<u>23,339</u>	<u>25,408</u>	<u>226,857</u>
Other income (expenses):			
Interest and dividend income	1,023	1,135	10,134
Interest expense	(2,139)	(1,918)	(17,125)
Equity in net earnings of affiliates	1,650	1,318	11,768
Impairment loss on fixed assets	(115)	(707)	(6,313)
Gain on sale or disposition of property and equipment, net	357	501	4,473
Gain on contributions for construction	20	47	420
Loss on reduction of property and equipment	(10)	(44)	(393)
Others, net	915	318	2,840
Other income (expenses), net	<u>1,701</u>	<u>650</u>	<u>5,804</u>
Profit before income taxes	<u>25,040</u>	<u>26,058</u>	<u>232,661</u>
Income taxes:			
Current	9,563	7,802	69,661
Deferred	(1,269)	(171)	(1,527)
Total income taxes	<u>8,294</u>	<u>7,631</u>	<u>68,134</u>
Profit	<u>16,746</u>	<u>18,427</u>	<u>164,527</u>
Profit attributable to:			
Owners of the parent	15,182	16,876	150,679
Non-controlling interests	1,564	1,551	13,848
Total profit	<u>16,746</u>	<u>18,427</u>	<u>164,527</u>
Per share:			
Net income:			
- Basic	¥ 82.58	¥ 91.80	\$ 0.82
- Diluted	72.11	80.17	0.72
Cash dividends	—	—	—

* The Company has conducted a share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017. Accordingly, "Per share: Net income: - Basic" and "Per share: Net income: - Diluted" have been calculated on the assumption that the shareconsolidation was conducted at the beginning of FY 2017

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)
	Six-month periods ended 30 September		Six-month period ended 30 September 2017
	2016	2017	
Profit	¥ 16,746	¥ 18,427	\$ 164,527
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	(3,244)	6,259	55,884
Deferred gains and losses on hedges	164	171	1,527
Land revaluation increment	14	—	—
Foreign currency translation adjustments	(16)	(5)	(45)
Retirement benefit adjustments	956	434	3,875
Share of other comprehensive income of affiliates accounted for using the equity method	(185)	84	750
Total other comprehensive income	(2,311)	6,943	61,991
Comprehensive income	¥ 14,435	¥ 25,370	\$ 226,518
Comprehensive income attributable to:			
Owners of the parent	¥ 12,799	¥ 23,651	\$ 211,170
Non-controlling interests	1,636	1,719	15,348
Total comprehensive income	¥ 14,435	¥ 25,370	\$ 226,518

See Notes to Quarterly Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Six-month periods ended 30 September		Six-month period ended 30 September 2017
	2016	2017	
Cash flows from operating activities:			
Profit before income taxes	¥ 25,040	¥ 26,058	\$ 232,661
Adjustments for:			
Depreciation and amortisation	18,948	18,939	169,098
Impairment loss on fixed assets	115	707	6,312
Decrease in employee retirement benefit liability	(180)	(1,114)	(9,946)
Decrease in trade notes and accounts receivable	1,753	3,673	32,795
Decrease (increase) in inventories	(3,810)	778	6,946
Decrease in trade notes and accounts payable	(10,397)	(11,557)	(103,188)
Others, net	(1,273)	(3,050)	(27,232)
Subtotal	30,196	34,434	307,446
Interest and dividends received	1,440	1,556	13,893
Interest paid	(2,169)	(1,948)	(17,393)
Income taxes paid	(6,471)	(9,128)	(81,500)
Net cash provided by operating activities	22,996	24,914	222,446
Cash flows from investing activities:			
Purchases of property and equipment	(24,345)	(30,114)	(268,875)
Proceeds from sales of property and equipment	1,052	2,063	18,420
Proceeds for contributions for construction	4,553	5,051	45,098
Purchases of investments securities	(35)	(24)	(214)
Proceeds from sales or redemptions of investment securities	286	206	1,839
Others, net	252	(133)	(1,188)
Net cash used in investing activities	(18,237)	(22,951)	(204,920)
Cash flows from financing activities:			
Increase in long-term debt	35,208	35,408	316,143
Repayment of long-term debt	(27,816)	(48,620)	(434,107)
Net increase (decrease) in short-term borrowings	(4,624)	3,555	31,741
Dividends paid to shareholders	(4,578)	(4,575)	(40,848)
Others, net	1,394	(234)	(2,089)
Net cash provided by (used in) financing activities	(416)	(14,466)	(129,160)
Effect of exchange rate changes on cash and cash equivalents	(14)	(4)	(36)
Net increase (decrease) in cash and cash equivalents	4,329	(12,507)	(111,670)
Cash and cash equivalents at beginning of period	16,922	21,944	195,929
Cash and cash equivalents at end of period	¥ 21,251	¥ 9,437	\$ 84,259

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 September 2017, which was ¥112 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 six-month periods ended 30 September 2016 and 2017 from those for the years ended 31 March 2016 and 2017.

(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 six-month periods ended 30 September 2016 and 2017 from those for the years ended 31 March 2016 and 2017, respectively.

3. Contingent liabilities

At 31 March 2017 and 30 September 2017, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2017	30 September 2017	30 September 2017
Contingently liable for:			
Guarantees of loans of others	¥605	¥596	\$5,321
Guarantees under debt assumption agreements	10,000	0	0
Total	¥10,605	¥596	\$5,321

4. Net assets

At the ordinary shareholders' meeting held on 28 June 2016 and 28 June 2017, the shareholders approved cash dividends of ¥5.00 per share and ¥5.00 per share, amounting to ¥4,597 million and ¥4,596 million (\$41,036 thousand), respectively.

5. Segment information

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

Information about reportable segments for the six-month period ended 30 September 2016 was as follows.

	Reportable segments						Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others (*1)			
Millions of yen									
Operating revenues:									
External customers	¥82,053	¥64,604	¥35,484	¥26,636	¥59,458	¥24,058	¥292,293	¥—	¥292,293
Intersegment sales/transfer	1,145	231	3,493	784	4,846	9,092	19,591	(19,591)	—
Total	¥83,198	¥64,835	¥38,977	¥27,420	¥64,304	¥33,150	¥311,884	¥(19,591)	¥292,293
Segment income (*2)	12,697	3,478	4,742	827	195	1,115	23,054	285	23,339

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

*2) Segment income adjustment amounting to ¥285 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 six-month period ended 30 September 2017 was as follows.

	Reportable segments						Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others (*1)			
Millions of yen									
Operating revenues:									
External customers	¥82,874	¥65,599	¥37,522	¥27,166	¥58,166	¥23,203	¥294,530	¥—	¥294,530
Intersegment sales/transfer	1,217	205	3,913	715	5,288	9,211	20,549	(20,549)	—
Total	¥84,091	¥65,804	¥41,435	¥27,881	¥63,454	¥32,414	¥315,079	¥(20,549)	¥294,530
Segment income (*2)	13,534	3,427	5,256	1,141	389	1,384	25,131	277	25,408

	Reportable segments						Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others (*1)			
Thousands of U.S. dollars									
Operating revenues:									
External customers	\$739,946	\$585,705	\$335,018	\$242,554	\$519,340	\$207,170	\$2,629,733	\$—	\$2,629,733
Intersegment sales/transfer	10,866	1,830	34,938	6,384	47,214	82,241	183,473	(183,473)	—
Total	\$750,812	\$587,535	\$369,956	\$248,938	\$566,554	\$289,411	\$2,813,206	\$(183,473)	\$2,629,733
Segment income (*2)	120,839	30,598	46,929	10,188	3,473	12,357	224,384	2,473	226,857

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

*2) Segment income adjustment amounting to ¥277 million (\$2,473 thousand) was treated as intersegment elimination.

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