

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 September 2018	30 September 2018
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 30,855	¥ 32,333	\$ 283,623
Short-term investments	734	712	6,246
Trade notes and accounts receivable	57,808	56,647	496,904
Inventories	70,647	75,326	660,754
Others	18,282	19,897	174,535
Less allowance for doubtful accounts	(290)	(264)	(2,316)
Total current assets	178,036	184,651	1,619,746
Property and equipment:			
Land	362,632	363,785	3,191,096
Buildings and structures	691,180	693,292	6,081,509
Machinery, equipment and vehicles	323,094	328,403	2,880,728
Other properties	68,962	68,244	598,632
Construction in progress	41,167	47,984	420,912
	1,487,035	1,501,708	13,172,877
Less accumulated depreciation	(697,732)	(709,623)	(6,224,763)
Property and equipment, net	789,303	792,085	6,948,114
Investments and other assets:			
Investment securities	80,477	80,913	709,763
Investments in unconsolidated subsidiaries and affiliates	35,656	36,476	319,965
Deferred tax assets (Note 2(b))	13,478	13,460	118,070
Intangible assets	8,804	8,472	74,316
Other assets	16,696	16,985	148,991
Allowance for doubtful accounts	(1,828)	(1,826)	(16,018)
Total investments and other assets	153,283	154,480	1,355,087
Total assets	¥ 1,120,622	¥ 1,131,216	\$ 9,922,947

See Notes to Quarterly Consolidated Financial Statements.

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	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2018	30 September 2018	30 September 2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 22,500	¥ 23,499	\$ 206,132
Current portion of long-term debt	55,867	60,056	526,807
Trade notes and accounts payable	69,163	57,096	500,842
Accrued expenses	15,669	16,362	143,526
Income taxes payable	9,138	7,214	63,281
Provisions	2,137	2,261	19,833
Other current liabilities	85,212	90,670	795,351
Total current liabilities	259,686	257,158	2,255,772
Non-current liabilities:			
Long-term debt	348,003	347,169	3,045,342
Accrued retirement benefits for directors and corporate auditors	1,324	1,161	10,184
Deferred tax liabilities (Note 2(b))	3,792	3,747	32,868
Deferred tax liabilities for land revaluation (Note 2(b))	56,752	56,664	497,053
Provisions	12,880	12,667	111,114
Employee retirement benefit liability	30,719	30,974	271,702
Other non-current liabilities	17,910	17,312	151,859
Total non-current liabilities	471,380	469,694	4,120,122
Total liabilities	731,066	726,852	6,375,894
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 191,629 thousand shares at 30 September 2018	95,149	96,269	844,465
Capital surplus	29,270	30,426	266,895
Retained earnings	117,154	127,915	1,122,061
Treasury stock - at cost: 27 thousand shares at 31 March 2018 and 36 thousand shares at 30 September 2018	(30)	(53)	(465)
Total shareholders' equity	241,543	254,557	2,232,956
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	28,922	29,205	256,184
Deferred gains and losses on hedges	120	319	2,798
Land revaluation increment	88,698	88,763	778,623
Foreign currency translation adjustments	(17)	(21)	(184)
Retirement benefit adjustments	1,074	1,124	9,860
Total accumulated other comprehensive income (loss)	118,797	119,390	1,047,281
Non-controlling interests	29,216	30,417	266,816
Total net assets	389,556	404,364	3,547,053
Total liabilities and net assets	¥ 1,120,622	¥ 1,131,216	\$ 9,922,947

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 2018
	2017	2018	
Operating revenues (Note 5)	¥ 294,531	¥ 295,631	\$ 2,593,254
Operating expenses			
Transportation, other services and cost of sales	243,455	244,654	2,146,088
Selling, general and administrative expenses	25,668	26,373	231,342
Total operating expenses	269,123	271,027	2,377,430
Operating income	25,408	24,604	215,824
Other income (expenses):			
Interest and dividend income	1,135	1,175	10,307
Interest expense	(1,918)	(1,752)	(15,368)
Equity in net earnings of affiliates	1,318	1,150	10,087
Impairment loss on fixed assets	(707)	(246)	(2,158)
Gain on sale or disposition of property and equipment, net	501	13	114
Gain on contributions for construction	47	133	1,167
Loss on reduction of property and equipment	(44)	(104)	(912)
Provision for loss on liquidation	(25)	(581)	(5,096)
Others, net	343	425	3,728
Other income (expenses), net	650	213	1,869
Profit before income taxes	26,058	24,817	217,693
Income taxes:			
Current	7,802	7,712	67,649
Deferred	(171)	(304)	(2,667)
Total income taxes	7,631	7,408	64,982
Profit	18,427	17,409	152,711
Profit attributable to:			
Owners of the parent	16,876	15,994	140,299
Non-controlling interests	1,551	1,415	12,412
Total profit	¥ 18,427	¥ 17,409	\$ 152,711
Per share:			
Net income:			
- Basic	¥ 91.80	¥ 83.68	\$ 0.73
- Diluted	80.17	75.98	0.67
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)
	Six-month periods ended 30 September		Six-month period ended 30 September 2018
	2017	2018	
Profit	¥ 18,427	¥ 17,409	\$ 152,711
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	6,259	171	1,500
Deferred gains and losses on hedges	171	201	1,763
Foreign currency translation adjustments	(5)	(4)	(35)
Retirement benefit adjustments	434	103	904
Share of other comprehensive income of affiliates accounted for using the equity method	84	124	1,087
Total other comprehensive income	6,943	595	5,219
Comprehensive income	¥ 25,370	¥ 18,004	\$ 157,930
Comprehensive income attributable to:			
Owners of the parent	¥ 23,651	¥ 16,522	\$ 144,930
Non-controlling interests	1,719	1,482	13,000
Total comprehensive income	¥ 25,370	¥ 18,004	\$ 157,930

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 2018
	2017	2018	
Cash flows from operating activities:			
Profit before income taxes	¥ 26,058	¥ 24,817	\$ 217,693
Adjustments for:			
Depreciation and amortisation	18,939	19,489	170,956
Impairment loss on fixed assets	707	246	2,158
Increase (decrease) in employee retirement benefit liability	(1,114)	428	3,754
Decrease (increase) in trade notes and accounts receivable	3,673	370	3,246
Decrease (increase) in inventories	778	(2,951)	(25,886)
Increase (decrease) in trade notes and accounts payable	(11,557)	(5,106)	(44,789)
Others, net	(3,050)	(2,890)	(25,351)
Subtotal	34,434	34,403	301,781
Interest and dividends received	1,556	1,620	14,211
Interest paid	(1,948)	(1,732)	(15,193)
Income taxes paid	(9,128)	(9,363)	(82,132)
Net cash provided by (used in) operating activities	24,914	24,928	218,667
Cash flows from investing activities:			
Purchases of fixed assets	(30,114)	(28,874)	(253,281)
Proceeds from sales of fixed assets	2,063	895	7,851
Proceeds for contributions for construction	5,051	3,897	34,184
Purchases of investments securities	(24)	(204)	(1,789)
Proceeds from sales or redemptions of investment securities	206	42	368
Purchases of shares of subsidiaries resulting in change in scope of consolidation	—	(613)	(5,377)
Others, net	(133)	229	2,009
Net cash provided by (used in) investing activities	(22,951)	(24,628)	(216,035)
Cash flows from financing activities:			
Proceeds from long-term debt	35,408	24,220	212,456
Repayment of long-term debt	(48,620)	(18,715)	(164,167)
Net increase (decrease) in short-term borrowings	3,555	1,311	11,500
Purchases of shares of subsidiaries resulting in no change in scope of consolidation	—	(165)	(1,447)
Dividends paid to shareholders	(4,575)	(5,215)	(45,746)
Others, net	(234)	(282)	(2,474)
Net cash provided by (used in) financing activities	(14,466)	1,154	10,122
Effect of exchange rate changes on cash and cash equivalents	(4)	(4)	(35)
Net increase in cash and cash equivalents	(12,507)	1,450	12,719
Cash and cash equivalents at beginning of period	21,944	30,855	270,658
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries	—	28	246
Cash and cash equivalents at end of period	¥ 9,437	¥ 32,333	\$ 283,623

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 2018, which was ¥114 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 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 six-month periods ended 30 September 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 six-month period ended 30 September 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 September 2018, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2018	30 September 2018	30 September 2018
Contingently liable for:			
Guarantees of loans of others	¥593	¥723	\$6,342
Total	¥593	¥723	\$6,342

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 (\$45,947 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 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	Aviation Services	Others (*1)			
Millions of yen										
Operating revenues:										
External customers	¥82,874	¥65,599	¥37,854	¥27,166	¥58,166	¥11,395	¥11,477	¥294,531	¥—	¥294,531
Intersegment sales/transfer	1,217	205	5,117	715	5,288	—	7,784	20,326	(20,326)	—
Total	¥84,091	¥65,804	¥42,971	¥27,881	¥63,454	¥11,395	¥19,261	¥314,857	¥ (20,326)	¥294,531
Segment income (*2)	13,534	3,427	5,322	1,141	389	1,110	200	25,123	285	25,408

*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 ¥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 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	¥83,185	¥67,672	¥33,312	¥25,713	¥61,346	¥12,039	¥12,364	¥295,631	¥—	¥295,631
Intersegment sales/transfer	1,113	250	5,285	722	6,241	—	7,410	21,021	(21,021)	—
Total	¥84,298	¥67,922	¥38,597	¥26,435	¥67,587	¥12,039	¥19,774	¥316,652	¥ (21,021)	¥295,631
Segment income (*2)	13,815	3,515	4,547	992	333	1,212	(61)	24,353	251	24,604

	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	\$729,693	\$593,614	\$292,211	\$225,553	\$538,122	\$105,605	\$108,456	\$2,593,254	\$—	\$2,593,254
Intersegment sales/transfer	9,763	2,193	46,360	6,333	54,746	—	65,000	184,395	(184,395)	—
Total	\$739,456	\$595,807	\$338,571	\$231,886	\$592,868	\$105,605	\$173,456	\$2,777,649	\$ (184,395)	\$2,593,254
Segment income (*2)	121,184	30,833	39,886	8,702	2,921	10,631	(535)	213,622	2,202	215,824

*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 ¥251 million (\$2,202 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 six-month period ended 30 September 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 six-month period ended 30 September 2017 information has been prepared and presented based on the new reportable segments.