

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	31 December 2017	31 December 2017
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,944	¥ 28,075	\$ 248,451
Short-term investments	759	1,761	15,584
Trade notes and accounts receivable	57,828	56,385	498,982
Inventories	70,284	71,870	636,018
Deferred tax assets	4,241	2,515	22,257
Others	18,325	20,284	179,504
Less allowance for doubtful accounts	(323)	(306)	(2,708)
Total current assets	<u>173,058</u>	<u>180,584</u>	<u>1,598,088</u>
Property and equipment:			
Land	361,851	363,979	3,221,053
Buildings and structures	683,926	687,776	6,086,513
Machinery, equipment and vehicles	314,249	319,704	2,829,239
Other properties	62,283	64,450	570,354
Construction in progress	33,583	38,342	339,310
	<u>1,455,892</u>	<u>1,474,251</u>	<u>13,046,469</u>
Less accumulated depreciation	(676,977)	(692,696)	(6,130,053)
Property and equipment, net	<u>778,915</u>	<u>781,555</u>	<u>6,916,416</u>
Investments and other assets:			
Investment securities	73,181	88,433	782,593
Investments in unconsolidated subsidiaries and affiliates	33,157	34,717	307,230
Deferred tax assets	11,913	8,486	75,097
Intangible assets	9,157	8,408	74,407
Other assets	16,386	15,689	138,841
Allowance for doubtful accounts	(1,884)	(1,839)	(16,274)
Total investments and other assets	<u>141,910</u>	<u>153,894</u>	<u>1,361,894</u>
Total assets	<u>¥ 1,093,883</u>	<u>¥ 1,116,033</u>	<u>\$ 9,876,398</u>

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 2017	31 December 2017	31 December 2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 20,790	¥ 26,596	\$ 235,363
Current portion of long-term debt	79,673	66,983	592,770
Trade notes and accounts payable	71,411	54,219	479,814
Accrued expenses	15,424	13,458	119,097
Income taxes payable	9,158	4,097	36,257
Provisions	2,257	2,104	18,619
Other current liabilities	80,247	90,993	805,248
Total current liabilities	278,960	258,450	2,287,168
Non-current liabilities:			
Long-term debt	344,138	349,580	3,093,628
Accrued retirement benefits for directors and corporate auditors	1,699	1,221	10,805
Deferred tax liabilities	4,196	5,898	52,195
Deferred tax liabilities for land revaluation	56,672	56,639	501,230
Provisions	13,135	12,729	112,646
Employee retirement benefit liability	34,315	32,634	288,797
Other non-current liabilities	17,955	17,662	156,301
Total non-current liabilities	472,110	476,363	4,215,602
Total liabilities	751,070	734,813	6,502,770
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 185,664 thousand shares at 31 December 2017	88,864	90,513	801,000
Capital surplus	23,156	24,800	219,469
Retained earnings	93,165	114,004	1,008,885
Treasury stock - at cost: 125 thousand shares at 31 March 2017 and 148 thousand shares at 31 December 2017	(271)	(330)	(2,920)
Total shareholders' equity	204,914	228,987	2,026,434
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	23,908	34,501	305,318
Deferred gains and losses on hedges	(197)	142	1,257
Land revaluation increment	88,835	88,977	787,407
Foreign currency translation adjustments	(13)	(16)	(142)
Retirement benefit adjustments	(1,127)	(528)	(4,673)
Total accumulated other comprehensive income (loss)	111,406	123,076	1,089,167
Non-controlling interests	26,493	29,157	258,027
Total net assets	342,813	381,220	3,373,628
Total liabilities and net assets	¥ 1,093,883	¥ 1,116,033	\$ 9,876,398

* 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)
	Nine-month periods ended 31 December		Nine-month period ended 31 December 2017
	2016	2017	
Operating revenues (Note 5)	¥ 441,629	¥ 446,289	\$ 3,949,460
Operating expenses			
Transportation, other services and cost of sales	366,204	368,780	3,263,540
Selling, general and administrative expenses	38,652	38,399	339,814
Total operating expenses	404,856	407,179	3,603,354
Operating income	36,773	39,110	346,106
Other income (expenses):			
Interest and dividend income	1,411	1,553	13,743
Interest expense	(3,158)	(2,824)	(24,991)
Equity in net earnings of affiliates	2,217	1,833	16,221
Impairment loss on fixed assets	(1,146)	(721)	(6,380)
Gain on sale or disposition of property and equipment, net	363	457	4,044
Gain on contributions for construction	27	51	451
Loss on reduction of property and equipment	(16)	(46)	(407)
Others, net	1,129	795	7,036
Other income (expenses), net	827	1,098	9,717
Profit before income taxes	37,600	40,208	355,823
Income taxes:			
Current	12,140	10,458	92,549
Deferred	318	1,574	13,929
Total income taxes	12,458	12,032	106,478
Profit	25,142	28,176	249,345
Profit attributable to:			
Owners of the parent	22,698	25,579	226,363
Non-controlling interests	2,444	2,597	22,982
Total profit	25,142	28,176	249,345
Per share:			
Net income:			
- Basic	¥ 123.46	¥ 139.02	\$ 1.23
- Diluted	107.82	121.46	1.07
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)
	Nine-month periods ended 31 December		Nine-month period ended 31 December 2017
	2016	2017	
Profit	¥ 25,142	¥ 28,176	\$ 249,345
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	3,043	10,691	94,611
Deferred gains and losses on hedges	517	349	3,088
Land revaluation increment	14	—	—
Foreign currency translation adjustments	(17)	(4)	(35)
Retirement benefit adjustments	1,311	651	5,761
Share of other comprehensive income of affiliates accounted for using the equity method	(105)	138	1,221
Total other comprehensive income	4,763	11,825	104,646
Comprehensive income	¥ 29,905	¥ 40,001	\$ 353,991
Comprehensive income attributable to:			
Owners of the parent	¥ 27,187	¥ 37,106	\$ 328,372
Non-controlling interests	2,718	2,895	25,619
Total comprehensive income	¥ 29,905	¥ 40,001	\$ 353,991

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 31 December 2017, which was ¥113 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 nine-month periods ended 31 December 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 nine-month periods ended 31 December 2016 and 2017 from those for the years ended 31 March 2016 and 2017, respectively.

3. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	31 March 2017	31 December 2017	31 December 2017
Contingently liable for:			
Guarantees of loans of others	¥605	¥607	\$5,372
Guarantees under debt assumption agreements	10,000	—	—
Total	¥10,605	¥607	\$5,372

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 (\$40,673 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 nine-month period ended 31 December 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	¥123,334	¥98,318	¥49,934	¥40,256	¥92,244	¥37,543	¥441,629	¥—	¥441,629
Intersegment sales/transfer	1,719	368	5,206	1,270	7,222	13,529	29,314	(29,314)	—
Total	¥125,053	¥98,686	¥55,140	¥41,526	¥99,466	¥51,072	¥470,943	¥(29,314)	¥441,629
Segment income (*2)	19,510	5,434	6,669	1,385	496	2,889	36,383	390	36,773

*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 ¥390million 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 nine-month period ended 31 December 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	¥124,818	¥100,276	¥53,465	¥40,110	¥90,705	¥36,915	¥446,289	¥—	¥446,289
Intersegment sales/transfer	1,733	294	5,805	1,183	8,184	13,496	30,695	(30,695)	—
Total	¥126,551	¥100,570	¥59,270	¥41,293	¥98,889	¥50,411	¥476,984	¥(30,695)	¥446,289
Segment income (*2)	20,514	5,310	7,564	1,781	894	2,662	38,725	385	39,110

	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	\$1,104,584	\$887,398	\$473,142	\$354,956	\$802,699	\$326,681	\$3,949,460	\$—	\$3,949,460
Intersegment sales/transfer	15,336	2,602	51,371	10,469	72,425	119,434	271,637	(271,637)	—
Total	\$1,119,920	\$890,000	\$524,513	\$365,425	\$875,124	\$446,115	\$4,221,097	\$ (271,637)	\$3,949,460
Segment income (*2)	181,540	46,991	66,938	15,761	7,912	23,557	342,699	3,407	346,106

*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 ¥385million (\$3,407thousand) was treated as intersegment elimination.

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