

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 June 2017	30 June 2017
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,944	¥ 13,849	\$ 123,652
Short-term investments	759	799	7,134
Trade notes and accounts receivable	57,828	49,220	439,464
Inventories	70,284	71,342	636,982
Deferred tax assets	4,241	3,547	31,670
Others	18,325	21,124	188,607
Less allowance for doubtful accounts	(323)	(309)	(2,759)
Total current assets	173,058	159,572	1,424,750
Property and equipment:			
Land	361,851	364,037	3,250,330
Buildings and structures	683,926	686,308	6,127,750
Machinery, equipment and vehicles	314,249	317,184	2,832,000
Other properties	62,283	62,527	558,277
Construction in progress	33,583	35,349	315,616
	1,455,892	1,465,405	13,083,973
Less accumulated depreciation	(676,977)	(683,017)	(6,098,366)
Property and equipment, net	778,915	782,388	6,985,607
Investments and other assets:			
Investment securities	73,181	78,798	703,554
Investments in unconsolidated subsidiaries and affiliates	33,157	33,369	297,937
Deferred tax assets	11,913	9,790	87,411
Intangible assets	9,157	8,688	77,571
Other assets	16,386	15,554	138,875
Allowance for doubtful accounts	(1,884)	(1,889)	(16,866)
Total investments and other assets	141,910	144,310	1,288,482
Total assets	¥ 1,093,883	¥ 1,086,270	\$ 9,698,839

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 June 2017	30 June 2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 20,790	¥ 25,891	\$ 231,170
Current portion of long-term debt	79,673	52,660	470,179
Trade notes and accounts payable	71,411	51,784	462,357
Accrued expenses	15,424	16,065	143,438
Income taxes payable	9,158	2,459	21,955
Provisions	2,257	2,015	17,991
Other current liabilities	80,247	85,411	762,598
Total current liabilities	278,960	236,285	2,109,688
Non-current liabilities:			
Long-term debt	344,138	373,140	3,331,607
Accrued retirement benefits for directors and corporate auditors	1,699	1,415	12,634
Deferred tax liabilities	4,196	3,974	35,482
Deferred tax liabilities for land revaluation	56,672	56,668	505,964
Provisions	13,135	12,954	115,661
Employee retirement benefit liability	34,315	32,777	292,652
Other non-current liabilities	17,955	17,901	159,830
Total non-current liabilities	472,110	498,829	4,453,830
Total liabilities	751,070	735,114	6,563,518
Contingent liabilities (Note 3)			
Net assets:			
Shareholders' equity (Note 4):			
Common stock: authorised - 1,800,000 thousand shares issued - 919,773 thousand shares at 31 March 2017 and 30 June 2017	88,864	88,864	793,428
Capital surplus	23,156	23,156	206,750
Retained earnings	93,165	96,661	863,045
Treasury stock - at cost: 625 thousand shares at 31 March 2017 and 639 thousand shares at 30 June 2017	(271)	(278)	(2,482)
Total shareholders' equity	204,914	208,403	1,860,741
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	23,908	27,832	248,500
Deferred gains and losses on hedges	(197)	(220)	(1,964)
Land revaluation increment	88,835	89,003	794,670
Foreign currency translation adjustments	(13)	(18)	(161)
Retirement benefit adjustments	(1,127)	(928)	(8,286)
Total accumulated other comprehensive income (loss)	111,406	115,669	1,032,759
Non-controlling interests	26,493	27,084	241,821
Total net assets	342,813	351,156	3,135,321
Total liabilities and net assets	¥ 1,093,883	¥ 1,086,270	\$ 9,698,839

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 2017
	2016	2017	
Operating revenues (Note 5)	¥ 142,886	¥ 142,836	\$ 1,275,321
Operating expenses			
Transportation, other services and cost of sales	118,911	118,433	1,057,437
Selling, general and administrative expenses	12,948	12,867	114,884
Total operating expenses	131,859	131,300	1,172,321
Operating income	11,027	11,536	103,000
Other income (expenses):			
Interest and dividend income	977	1,079	9,634
Interest expense	(1,057)	(948)	(8,464)
Equity in net earnings of affiliates	965	646	5,768
Impairment loss on fixed assets	(18)	(9)	(80)
Gain on sale or disposition of property and equipment, net	481	92	821
Gain on contributions for construction	8	47	420
Loss on reduction of property and equipment	(1)	(44)	(393)
Others, net	773	109	973
Other income (expenses), net	2,128	972	8,679
Profit before income taxes	13,155	12,508	111,679
Income taxes:			
Current	3,561	2,842	25,375
Deferred	147	714	6,375
Total income taxes	3,708	3,556	31,750
Profit	9,447	8,952	79,929
Profit attributable to:			
Owners of the parent	8,560	8,262	73,768
Non-controlling interests	887	690	6,161
Total profit	¥ 9,447	¥ 8,952	\$ 79,929
Per share:			
Net income:			
- Basic	¥ 9.31	¥ 8.99	\$ 0.08
- Diluted	8.13	7.85	0.07
Cash dividends	—	—	—

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
	2016	2017	June 2017
Profit	¥ 9,447	¥ 8,952	\$ 79,929
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	(3,123)	4,028	35,964
Deferred gains and losses on hedges	168	(23)	(205)
Land revaluation increment	15	—	—
Foreign currency translation adjustments	(7)	(5)	(45)
Retirement benefit adjustments	496	217	1,937
Share of other comprehensive income of affiliates accounted for using the equity method	(268)	(14)	(125)
Total other comprehensive income	(2,719)	4,203	37,526
Comprehensive income	¥ 6,728	¥ 13,155	\$ 117,455
Comprehensive income attributable to:			
Owners of the parent	¥ 5,860	¥ 12,357	\$ 110,330
Non-controlling interests	868	798	7,125
Total comprehensive income	¥ 6,728	¥ 13,155	\$ 117,455

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 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 three-month periods ended 30 June 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 three-month periods ended 30 June 2016 and 2017 from those for the years ended 31 March 2016 and 2017, respectively.

3. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	31 March 2017	30 June 2017	30 June 2017
Contingently liable for:			
Guarantees of loans of others	¥605	¥626	\$5,589
Guarantees under debt assumption agreements	10,000	0	0
Total	¥10,605	¥626	\$5,589

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 three-month period ended 30 June 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	¥40,994	¥31,922	¥17,498	¥12,429	¥29,527	¥10,516	¥142,886	¥—	¥142,886
Intersegment sales/transfer	560	107	1,815	388	2,609	4,850	10,329	(10,329)	—
Total	¥41,554	¥32,029	¥19,313	¥12,817	¥32,136	¥15,366	¥153,215	¥(10,329)	¥142,886
Segment income (loss) (*2)	6,804	1,602	2,320	(59)	160	19	10,846	181	11,027

*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 (loss) adjustment amounting to ¥181 million was treated as intersegment elimination.

3) Segment income (loss) 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 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	¥41,480	¥32,198	¥18,081	¥12,601	¥28,877	¥9,599	¥142,836	¥—	¥142,836
Intersegment sales/transfer	564	103	2,023	396	2,842	5,116	11,044	(11,044)	—
Total	¥42,044	¥32,301	¥20,104	¥12,997	¥31,719	¥14,715	¥153,880	¥(11,044)	¥142,836
Segment income (loss) (*2)	7,177	1,397	2,517	(8)	352	(73)	11,362	174	11,536

	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	\$370,357	\$287,482	\$161,438	\$112,509	\$257,830	\$85,705	\$1,275,321	\$—	\$1,275,321
Intersegment sales/transfer	5,036	920	18,062	3,536	25,375	45,679	98,608	(98,608)	—
Total	\$375,393	\$288,402	\$179,500	\$116,045	\$283,205	\$131,384	\$1,373,929	\$(98,608)	\$1,275,321
Segment income (loss) (*2)	64,080	12,473	22,473	(71)	3,143	(652)	101,446	1,554	103,000

*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 (loss) adjustment amounting to ¥174 million (\$1,554 thousand) was treated as intersegment elimination.

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