

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	31 December 2018	31 December 2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 30,855	¥ 20,301	\$ 184,555
Short-term investments	734	692	6,291
Trade notes and accounts receivable	57,808	61,222	556,564
Inventories	70,647	79,669	724,264
Others	18,282	22,158	201,436
Less allowance for doubtful accounts	(290)	(268)	(2,437)
Total current assets	178,036	183,774	1,670,673
<b>Property and equipment:</b>			
Land	362,632	364,982	3,318,018
Buildings and structures	691,180	694,076	6,309,782
Machinery, equipment and vehicles	323,094	330,904	3,008,218
Other properties	68,962	69,378	630,709
Construction in progress	41,167	49,863	453,300
	1,487,035	1,509,203	13,720,027
Less accumulated depreciation	(697,732)	(715,651)	(6,505,918)
Property and equipment, net	789,303	793,552	7,214,109
<b>Investments and other assets:</b>			
Investment securities	80,477	74,522	677,473
Investments in unconsolidated subsidiaries and affiliates	35,656	36,790	334,455
Deferred tax assets (Note 2(b))	13,478	13,721	124,736
Intangible assets	8,804	8,012	72,836
Other assets	16,696	16,534	150,309
Allowance for doubtful accounts	(1,828)	(1,800)	(16,364)
Total investments and other assets	153,283	147,779	1,343,445
<b>Total assets</b>	¥ 1,120,622	¥ 1,125,105	\$ 10,228,227

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	31 December 2018	31 December 2018
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings	¥ 22,500	¥ 25,998	\$ 236,345
Current portion of long-term debt	55,867	39,024	354,764
Trade notes and accounts payable	69,163	59,772	543,382
Accrued expenses	15,669	12,866	116,964
Income taxes payable	9,138	3,525	32,045
Provisions	2,137	2,162	19,655
Other current liabilities	85,212	96,794	879,945
Total current liabilities	259,686	240,141	2,183,100
<b>Non-current liabilities:</b>			
Long-term debt	348,003	351,060	3,191,455
Accrued retirement benefits for directors and corporate auditors	1,324	1,258	11,436
Deferred tax liabilities (Note 2(b))	3,792	3,897	35,427
Deferred tax liabilities for land revaluation (Note 2(b))	56,752	56,834	516,673
Provisions	12,880	12,528	113,891
Employee retirement benefit liability	30,719	31,192	283,564
Other non-current liabilities	17,910	17,659	160,536
Total non-current liabilities	471,380	474,428	4,312,982
Total liabilities	731,066	714,569	6,496,082
<b>Contingent liabilities (Note 3)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 4):</b>			
Common stock: authorised - 360,000 thousand shares issued - 190,467 thousand shares at 31 March 2018 and 191,629 thousand shares at 31 December 2018	95,149	96,269	875,173
Capital surplus	29,270	30,428	276,618
Retained earnings	117,154	138,440	1,258,545
Treasury stock - at cost: 27 thousand shares at 31 March 2018 and 30 thousand shares at 31 December 2018	(30)	(37)	(336)
Total shareholders' equity	241,543	265,100	2,410,000
<b>Accumulated other comprehensive income (loss):</b>			
Net unrealised gains on available-for-sale securities	28,922	24,426	222,055
Deferred gains and losses on hedges	120	(162)	(1,473)
Land revaluation increment	88,698	88,539	804,900
Foreign currency translation adjustments	(17)	(18)	(164)
Retirement benefit adjustments	1,074	1,151	10,464
Total accumulated other comprehensive income (loss)	118,797	113,936	1,035,782
<b>Non-controlling interests</b>	29,216	31,500	286,363
Total net assets	389,556	410,536	3,732,145
<b>Total liabilities and net assets</b>	¥ 1,120,622	¥ 1,125,105	\$ 10,228,227

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 2018
	2017	2018	
<b>Operating revenues (Note 5)</b>	¥ 446,289	¥ 453,750	\$ 4,125,000
<b>Operating expenses</b>			
Transportation, other services and cost of sales	368,780	373,652	3,396,837
Selling, general and administrative expenses	38,399	39,976	363,418
Total operating expenses	407,179	413,628	3,760,255
<b>Operating income</b>	39,110	40,122	364,745
<b>Other income (expenses):</b>			
Interest and dividend income	1,553	1,633	14,845
Interest expense	(2,824)	(2,615)	(23,773)
Equity in net earnings of affiliates	1,833	2,009	18,264
Impairment loss on fixed assets	(721)	(254)	(2,309)
Gain on sale or disposition of property and equipment, net	457	294	2,673
Gain on contributions for construction	51	134	1,218
Loss on reduction of property and equipment	(46)	(109)	(991)
Provision for loss on liquidation	(136)	(496)	(4,509)
Others, net	931	768	6,982
Other income (expenses), net	1,098	1,364	12,400
<b>Profit before income taxes</b>	40,208	41,486	377,145
<b>Income taxes:</b>			
Current	10,458	10,601	96,373
Deferred	1,574	1,742	15,836
Total income taxes	12,032	12,343	112,209
<b>Profit</b>	28,176	29,143	264,936
<b>Profit attributable to:</b>			
Owners of the parent	25,579	26,489	240,809
Non-controlling interests	2,597	2,654	24,127
Total profit	¥ 28,176	¥ 29,143	\$ 264,936
<b>Per share:</b>			
Net income:			
- Basic	¥ 139.02	¥ 138.48	\$ 1.26
- Diluted	121.46	125.85	1.14
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)
	Nine-month periods ended 31 December		Nine-month period ended 31 December 2018
	2017	2018	
<b>Profit</b>	¥ 28,176	¥ 29,143	\$ 264,936
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	10,691	(4,306)	(39,145)
Deferred gains and losses on hedges	349	(291)	(2,645)
Land revaluation increment	—	(187)	(1,700)
Foreign currency translation adjustments	(4)	(1)	(9)
Retirement benefit adjustments	651	130	1,181
Share of other comprehensive income of affiliates accounted for using the equity method	138	(319)	(2,900)
Total other comprehensive income	11,825	(4,974)	(45,218)
<b>Comprehensive income</b>	¥ 40,001	¥ 24,169	\$ 219,718
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥ 37,106	¥ 21,601	\$ 196,373
Non-controlling interests	2,895	2,568	23,345
Total comprehensive income	¥ 40,001	¥ 24,169	\$ 219,718

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. 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 2018, which was ¥110 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 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 nine-month periods ended 31 December 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 nine-month period ended 31 December 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 31 December 2018, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2018	31 December 2018	31 December 2018
Contingently liable for:			
Guarantees of loans of others	¥593	¥690	\$6,273
Total	¥593	¥690	\$6,273

## 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 (\$47,618 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 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	Aviation Services	Others (*1)			
Millions of yen										
Operating revenues:										
External customers	¥124,818	¥100,276	¥53,999	¥40,110	¥90,705	¥18,229	¥18,152	¥446,289	¥—	¥446,289
Intersegment sales/transfer	1,733	294	7,569	1,183	8,184	—	11,391	30,354	(30,354)	—
Total	¥126,551	¥100,570	¥61,568	¥41,293	¥98,889	¥18,229	¥29,543	¥476,643	(30,354)	¥446,289
Segment income (*2)	20,514	5,310	7,661	1,781	894	2,153	399	38,712	398	39,110

\*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 ¥398 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 nine-month period ended 31 December 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	¥125,054	¥103,988	¥49,733	¥39,055	¥96,887	¥19,907	¥19,126	¥453,750	¥—	¥453,750
Intersegment sales/transfer	1,739	305	7,893	1,116	10,048	—	11,491	32,592	(32,592)	—
Total	¥126,793	¥104,293	¥57,626	¥40,171	¥106,935	¥19,907	¥30,617	¥486,342	(32,592)	¥453,750
Segment income (*2)	21,165	5,750	7,139	1,636	1,110	2,765	236	39,801	321	40,122

	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	\$1,136,855	\$945,345	\$452,118	\$355,045	\$880,791	\$180,973	\$173,873	\$4,125,000	\$—	\$4,125,000
Intersegment sales/transfer	15,809	2,773	71,755	10,146	91,345	—	104,463	296,291	(296,291)	—
Total	\$1,152,664	\$948,118	\$523,873	\$365,191	\$972,136	\$180,973	\$278,336	\$4,421,291	(296,291)	\$4,125,000
Segment income (*2)	192,409	52,273	64,900	14,873	10,091	25,136	2,145	361,827	2,918	364,745

\*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 ¥321million (\$2,918 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 nine-month period ended 31 December 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 nine-month period ended 31 December 2017 information has been prepared and presented based on the new reportable segments.