

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2016	31 December 2016	31 December 2016
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 16,922	¥ 20,184	\$ 172,513
Short-term investments	794	4,744	40,547
Trade notes and accounts receivable	55,711	55,698	476,051
Inventories	64,029	67,948	580,752
Deferred tax assets	3,411	2,837	24,248
Others	17,260	20,956	179,111
Less allowance for doubtful accounts	(203)	(319)	(2,726)
Total current assets	157,924	172,048	1,470,496
 Property and equipment:			
Land	359,804	365,094	3,120,462
Buildings and structures	677,307	683,181	5,839,154
Machinery, equipment and vehicles	307,164	313,288	2,677,675
Other properties	65,146	62,376	533,128
Construction in progress	27,785	30,942	264,461
	1,437,206	1,454,881	12,434,880
Less accumulated depreciation	(663,008)	(676,120)	(5,778,803)
Property and equipment, net	774,198	778,761	6,656,077
 Investments and other assets:			
Investment securities	66,317	70,639	603,752
Investments in unconsolidated subsidiaries and affiliates	30,763	32,340	276,410
Deferred tax assets	10,573	9,809	83,838
Intangible assets	10,605	9,467	80,915
Other assets	16,239	16,484	140,889
Allowance for doubtful accounts	(2,012)	(1,809)	(15,462)
Total investments and other assets	132,485	136,930	1,170,342
 Total assets	¥ 1,064,607	¥ 1,087,739	\$ 9,296,915

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 2016	31 December 2016	31 December 2016
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 26,287	¥ 26,440	\$ 225,983
Current portion of long-term debt	59,114	83,114	710,376
Trade notes and accounts payable	69,403	55,594	475,163
Accrued expenses	15,472	13,530	115,641
Income taxes payable	6,246	8,560	73,162
Provisions	2,142	2,092	17,880
Other current liabilities	75,386	85,155	727,821
Total current liabilities	254,050	274,485	2,346,026
Non-current liabilities:			
Long-term debt	372,968	350,463	2,995,410
Accrued retirement benefits for directors and corporate auditors	1,738	1,602	13,692
Deferred tax liabilities	3,638	4,758	40,667
Deferred tax liabilities for land revaluation	54,245	54,205	463,291
Provisions	8,564	8,125	69,444
Employee retirement benefit liability	37,340	35,760	305,641
Other non-current liabilities	18,516	18,094	154,650
Total non-current liabilities	497,009	473,007	4,042,795
Total liabilities	751,059	747,492	6,388,821
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 2016 and 31 December 2016	88,864	88,864	759,521
Capital surplus	23,042	23,159	197,940
Retained earnings	80,615	98,767	844,163
Treasury stock - at cost: 449 thousand shares at 31 March 2016 and 613 thousand shares at 31 December 2016	(170)	(263)	(2,248)
Total shareholders' equity	192,351	210,527	1,799,376
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	20,355	23,167	198,008
Deferred gains and losses on hedges	(615)	(128)	(1,094)
Land revaluation increment	82,538	82,499	705,120
Foreign currency translation adjustments	(9)	(26)	(222)
Retirement benefit adjustments	(3,628)	(2,432)	(20,786)
Total accumulated other comprehensive income (loss)	98,641	103,080	881,026
Non-controlling interests	22,556	26,640	227,692
Total net assets	313,548	340,247	2,908,094
Total liabilities and net assets	¥ 1,064,607	¥ 1,087,739	\$ 9,296,915

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 2016
	2015	2016	
Operating revenues (Note 5)	¥ 444,782	¥ 441,629	\$ 3,774,607
Operating expenses			
Transportation, other services and cost of sales	370,650	366,204	3,129,949
Selling, general and administrative expenses	38,216	38,652	330,359
Total operating expenses	408,866	404,856	3,460,308
Operating income	35,916	36,773	314,299
Other income (expenses):			
Interest and dividend income	1,310	1,411	12,060
Interest expense	(3,672)	(3,158)	(26,991)
Equity in net earnings of affiliates	2,250	2,217	18,949
Impairment loss on fixed assets	(3,998)	(1,146)	(9,795)
Gain on sale or disposition of property and equipment, net	1,270	363	3,103
Gain on contributions for construction	581	27	231
Loss on reduction of property and equipment	(541)	(16)	(137)
Others, net	(20)	1,129	9,649
Other income (expenses), net	(2,820)	827	7,069
Profit before income taxes	33,096	37,600	321,368
Income taxes:			
Current	8,009	12,140	103,761
Deferred	3,419	318	2,718
Total income taxes	11,428	12,458	106,479
Profit	21,668	25,142	214,889
Profit attributable to:			
Owners of the parent	19,206	22,698	194,000
Non-controlling interests	2,462	2,444	20,889
Total profit	¥ 21,668	¥ 25,142	\$ 214,889
Per share:			
Net income:			
- Basic	¥ 20.89	¥ 24.69	\$ 0.21
- Diluted	18.24	21.56	0.18
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)
	Nine-month periods ended 31 December		Nine-month period ended 31 December 2016
	2015	2016	
Profit	¥ 21,668	¥ 25,142	\$ 214,889
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	2,671	3,043	26,008
Deferred gains and losses on hedges	(327)	517	4,419
Land revaluation increment	33	14	120
Foreign currency translation adjustments	(1)	(17)	(145)
Retirement benefit adjustments	651	1,311	11,205
Share of other comprehensive income of affiliates accounted for using the equity method	170	(105)	(898)
Total other comprehensive income	3,197	4,763	40,709
Comprehensive income	¥ 24,865	¥ 29,905	\$ 255,598
Comprehensive income attributable to:			
Owners of the parent	¥ 22,280	¥ 27,187	\$ 232,367
Non-controlling interests	2,585	2,718	23,231
Total comprehensive income	¥ 24,865	¥ 29,905	\$ 255,598

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 rate prevailing at 31 December 2016, which was ¥117 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 2015 and 2016 from those for the years ended 31 March 2015 and 2016, except for those described in Note 2(b).

(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 2015 and 2016 from those for the years ended 31 March 2015 and 2016, respectively.

(b) Accounting changes

(Application of Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes)

In accordance with the amendment of the Corporation Tax Act of Japan, some of the consolidated subsidiaries have applied “Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes (ASBJ Practical Issues Task Force (“PITF”) No. 32, 17 June 2016)” from the beginning of the nine-month period ended 31 December 2016 and changed the depreciation method of facilities attached to the buildings and structures acquired on and after 1 April 2016 from the declining balance method to the straight-line method.

The effects on the quarterly consolidated financial statements for the nine-month period ended 31 December 2016 were not material.

(c) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Group has applied “Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, 28 March 2016)” from the beginning of the nine-month period ended 31 December 2016.

3. Contingent liabilities

At 31 March 2016 and 31 December 2016, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2016	31 December 2016	31 December 2016
Contingently liable for:			
Guarantees of loans of others	¥490	¥632	\$5,402
Guarantees under debt assumption agreements	10,000	10,000	85,470
Total	¥10,490	¥10,632	\$90,872

4. Net assets

At the ordinary shareholders’ meeting held on 25 June 2015 and 28 June 2016, the shareholders approved cash dividends of ¥4.50 per share and ¥5.00 per share, amounting to ¥4,139 million and ¥4,597 million (\$39,291 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 2015 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	¥122,883	¥100,279	¥49,076	¥40,361	¥94,574	¥37,609	¥444,782	¥—	¥444,782
Intersegment sales/transfer	1,731	302	5,097	1,192	8,231	13,952	30,505	(30,505)	—
Total	¥124,614	¥100,581	¥54,173	¥41,553	¥102,805	¥51,561	¥475,287	¥(30,505)	¥444,782
Segment income (*2)	19,347	5,582	5,717	1,974	494	2,384	35,498	418	35,916

*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 ¥418 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 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

	Reportable segments						Total	Adjustments	Quarterly consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others <i>(*1)</i>			
Thousands of U.S. dollars									
Operating revenues:									
External customers	\$1,054,137	\$840,325	\$426,786	\$344,068	\$788,410	\$320,881	\$3,774,607	\$—	\$3,774,607
Intersegment sales/transfer	14,692	3,145	44,496	10,855	61,727	115,632	250,547	(250,547)	—
Total	\$1,068,829	\$843,470	\$471,282	\$354,923	\$850,137	\$436,513	\$4,025,154	\$(250,547)	\$3,774,607
Segment income <i>(*2)</i>	166,752	46,444	57,000	11,838	4,239	24,693	310,966	3,333	314,299

*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 ¥390 million (\$3,333 thousand) was treated as intersegment elimination.

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