

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	30 June 2016	30 June 2016
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 16,922	¥ 19,260	\$ 186,990
Short-term investments	794	1,325	12,864
Trade notes and accounts receivable	55,711	48,141	467,389
Inventories	64,029	68,418	664,253
Deferred tax assets	3,411	3,398	32,990
Others	17,260	19,512	189,437
Less allowance for doubtful accounts	(203)	(169)	(1,641)
Total current assets	157,924	159,885	1,552,282
 Property and equipment:			
Land	359,804	360,739	3,502,320
Buildings and structures	677,307	680,656	6,608,311
Machinery, equipment and vehicles	307,164	310,583	3,015,369
Other properties	65,146	64,943	630,514
Construction in progress	27,785	28,975	281,311
	1,437,206	1,445,896	14,037,825
Less accumulated depreciation	(663,008)	(669,294)	(6,498,000)
Property and equipment, net	774,198	776,602	7,539,825
 Investments and other assets:			
Investment securities	66,317	61,824	600,233
Investments in unconsolidated subsidiaries and affiliates	30,763	31,026	301,223
Deferred tax assets	10,573	11,380	110,485
Intangible assets	10,605	10,192	98,951
Other assets	16,239	16,455	159,758
Allowance for doubtful accounts	(2,012)	(1,867)	(18,126)
Total investments and other assets	132,485	129,010	1,252,524
 Total assets	 ¥ 1,064,607	 ¥ 1,065,497	 \$ 10,344,631

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	30 June 2016	30 June 2016
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 26,287	¥ 27,886	\$ 270,738
Current portion of long-term debt	59,114	79,668	773,476
Trade notes and accounts payable	69,403	55,804	541,786
Accrued expenses	15,472	16,011	155,447
Income taxes payable	6,246	2,987	29,000
Provisions	2,142	2,111	20,495
Other current liabilities	75,386	81,367	789,971
Total current liabilities	254,050	265,834	2,580,913
Non-current liabilities:			
Long-term debt	372,968	359,563	3,490,903
Accrued retirement benefits for directors and corporate auditors	1,738	1,758	17,068
Deferred tax liabilities	3,638	3,519	34,165
Deferred tax liabilities for land revaluation	54,245	54,224	526,447
Provisions	8,564	8,371	81,272
Employee retirement benefit liability	37,340	36,914	358,388
Other non-current liabilities	18,516	18,149	176,203
Total non-current liabilities	497,009	482,498	4,684,446
Total liabilities	751,059	748,332	7,265,359
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 30 June 2016	88,864	88,864	862,757
Capital surplus	23,042	23,145	224,709
Retained earnings	80,615	84,593	821,291
Treasury stock - at cost: 449 thousand shares at 31 March 2016 and 467 thousand shares at 30 June 2016	(170)	(180)	(1,747)
Total shareholders' equity	192,351	196,422	1,907,010
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	20,355	17,030	165,340
Deferred gains and losses on hedges	(615)	(466)	(4,524)
Land revaluation increment	82,538	82,534	801,301
Foreign currency translation adjustments	(9)	(16)	(156)
Retirement benefit adjustments	(3,628)	(3,156)	(30,641)
Total accumulated other comprehensive income (loss)	98,641	95,926	931,320
Non-controlling interests	22,556	24,817	240,942
Total net assets	313,548	317,165	3,079,272
Total liabilities and net assets	¥ 1,064,607	¥ 1,065,497	\$ 10,344,631

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
	2015	2016	June 2016
Operating revenues (Note 5)	¥ 142,424	¥ 142,886	\$ 1,387,243
Operating expenses			
Transportation, other services and cost of sales	119,446	118,911	1,154,476
Selling, general and administrative expenses	12,672	12,948	125,709
Total operating expenses	132,118	131,859	1,280,185
Operating income	10,306	11,027	107,058
Other income (expenses):			
Interest and dividend income	859	977	9,485
Interest expense	(1,230)	(1,057)	(10,262)
Equity in net earnings of affiliates	447	965	9,369
Impairment loss on fixed assets	(112)	(18)	(175)
Gain on sale or disposition of property and equipment, net	221	481	4,670
Gain on contributions for construction	153	8	78
Loss on reduction of property and equipment	(133)	(1)	(10)
Others, net	282	773	7,505
Other income (expenses), net	487	2,128	20,660
Profit before income taxes	10,793	13,155	127,718
Income taxes:			
Current	2,398	3,561	34,573
Deferred	924	147	1,427
Total income taxes	3,322	3,708	36,000
Profit	7,471	9,447	91,718
Profit attributable to:			
Owners of the parent	6,852	8,560	83,107
Non-controlling interests	619	887	8,611
Total profit	¥ 7,471	¥ 9,447	\$ 91,718
Per share:			
Net income:			
- Basic	¥ 7.45	¥ 9.31	\$ 0.09
- Diluted	6.51	8.13	0.08
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 June 2016
	2015	2016	
Profit	¥ 7,471	¥ 9,447	\$ 91,718
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	3,707	(3,123)	(30,320)
Deferred gains and losses on hedges	164	168	1,631
Land revaluation increment	33	15	146
Foreign currency translation adjustments	—	(7)	(68)
Retirement benefit adjustments	230	496	4,815
Share of other comprehensive income of affiliates accounted for using the equity method	193	(268)	(2,602)
Total other comprehensive income	4,327	(2,719)	(26,398)
Comprehensive income	¥ 11,798	¥ 6,728	\$ 65,320
Comprehensive income attributable to:			
Owners of the parent	¥ 11,066	¥ 5,860	\$ 56,893
Non-controlling interests	732	868	8,427
Total comprehensive income	¥ 11,798	¥ 6,728	\$ 65,320

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 30 June 2016, which was ¥103 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 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 three-month periods ended 30 June 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 three-month period ended 30 June 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 three-month period ended 30 June 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 three-month period ended 30 June 2016.

3. Contingent liabilities

At 31 March 2016 and 30 June 2016, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2016	30 June 2016	30 June 2016
Contingently liable for:			
Guarantees of loans of others	¥490	¥558	\$5,418
Guarantees under debt assumption agreements	10,000	10,000	97,087
Total	¥10,490	¥10,558	\$102,505

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 (\$44,631 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 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	¥40,573	¥32,485	¥16,008	¥12,573	¥30,393	¥10,392	¥142,424	¥—	¥142,424
Intersegment sales/transfer	566	105	1,815	411	2,823	4,543	10,263	(10,263)	—
Total	¥41,139	¥32,590	¥17,823	¥12,984	¥33,216	¥14,935	¥152,687	¥(10,263)	¥142,424
Segment income (*2)	6,339	1,421	2,281	67	12	25	10,145	161	10,306

*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 ¥161 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 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

	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	\$398,000	\$309,922	\$169,884	\$120,670	\$286,670	\$102,097	\$1,387,243	\$—	\$1,387,243
Intersegment sales/transfer	5,437	1,039	17,621	3,767	25,330	47,087	100,281	(100,281)	—
Total	\$403,437	\$310,961	\$187,505	\$124,437	\$312,000	\$149,184	\$1,487,524	\$(100,281)	\$1,387,243
Segment income (loss) (*2)	66,058	15,553	22,524	(573)	1,554	185	105,301	1,757	107,058

*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 (\$1,757 thousand) was treated as intersegment elimination.

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