

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2015	30 June 2015	30 June 2015
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 15,776	¥ 13,076	\$ 107,180
Short-term investments	731	857	7,025
Trade notes and accounts receivable	54,064	48,956	401,279
Inventories	62,410	67,104	550,033
Deferred tax assets	5,387	4,416	36,197
Others	19,076	22,359	183,270
Less allowance for doubtful accounts	(824)	(779)	(6,385)
Total current assets	156,620	155,989	1,278,599
Property and equipment:			
Land	363,959	363,657	2,980,795
Buildings and structures	680,184	680,431	5,577,303
Machinery, equipment and vehicles	301,720	305,961	2,507,877
Other properties	63,846	65,418	536,213
Construction in progress	22,750	23,499	192,615
	1,432,459	1,438,966	11,794,803
Less accumulated depreciation	(656,193)	(662,576)	(5,430,951)
Property and equipment, net	776,266	776,390	6,363,852
Investments and other assets:			
Investment securities	72,121	76,770	629,262
Investments in unconsolidated subsidiaries and affiliates	28,420	28,860	236,558
Deferred tax assets	9,056	8,785	72,008
Intangible assets	10,069	9,745	79,877
Other assets	16,236	16,329	133,844
Allowance for doubtful accounts	(1,802)	(1,799)	(14,746)
Total investments and other assets	134,100	138,690	1,136,803
Total assets	¥ 1,066,986	¥ 1,071,069	\$ 8,779,254

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 2015	30 June 2015	30 June 2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 33,646	¥ 27,833	\$ 228,139
Current portion of long-term debt	52,588	53,989	442,533
Trade notes and accounts payable	74,234	56,213	460,762
Accrued expenses	15,119	15,817	129,648
Income taxes payable	4,822	2,277	18,664
Provisions	2,012	2,036	16,689
Other current liabilities	73,970	76,139	624,090
Total current liabilities	256,391	234,304	1,920,525
Non-current liabilities:			
Long-term debt	389,114	406,363	3,330,844
Accrued retirement benefits for directors and corporate auditors	1,630	1,711	14,025
Deferred tax liabilities	6,443	8,010	65,656
Deferred tax liabilities for land revaluation	57,515	57,471	471,074
Provisions	8,391	8,206	67,262
Employee retirement benefit liability	36,408	36,239	297,041
Other non-current liabilities	19,609	19,802	162,311
Total non-current liabilities	519,110	537,802	4,408,213
Total liabilities	775,501	772,106	6,328,738
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 2015 and 30 June 2015	88,864	88,864	728,393
Capital surplus	23,107	23,107	189,402
Retained earnings	63,237	65,960	540,656
Treasury stock - at cost: 202 thousand shares at 31 March 2015 and 224 thousand shares at 30 June 2015	(51)	(61)	(500)
Total shareholders' equity	175,157	177,870	1,457,951
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	23,910	27,739	227,369
Deferred gains and losses on hedges	(189)	(29)	(238)
Land revaluation increment	75,748	75,766	621,033
Foreign currency translation adjustments	(9)	(10)	(82)
Retirement benefit adjustments	(2,285)	(2,087)	(17,107)
Total accumulated other comprehensive income (loss)	97,175	101,379	830,975
Non-controlling interests	19,153	19,714	161,590
Total net assets	291,485	298,963	2,450,516
Total liabilities and net assets	¥ 1,066,986	¥ 1,071,069	\$ 8,779,254

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
	2014	2015	June 2015
Operating revenues (Note 5)	¥ 135,344	¥ 142,424	\$ 1,167,410
Operating expenses			
Transportation, other services and cost of sales	117,159	119,446	979,066
Selling, general and administrative expenses	12,264	12,672	103,869
Total operating expenses	<u>129,423</u>	<u>132,118</u>	<u>1,082,935</u>
Operating income	<u>5,921</u>	<u>10,306</u>	<u>84,475</u>
Other income (expenses):			
Interest and dividend income	764	859	7,041
Interest expense	(1,489)	(1,230)	(10,082)
Equity in net earnings of affiliates	443	447	3,664
Impairment loss on fixed assets	(47)	(112)	(918)
Gain on sale or disposition of property and equipment, net	190	221	1,811
Gain on contributions for construction	231	153	1,254
Loss on reduction of property and equipment	(221)	(133)	(1,090)
Others, net	38	282	2,312
Other income (expenses), net	<u>(91)</u>	<u>487</u>	<u>3,992</u>
Profit before income taxes	<u>5,830</u>	<u>10,793</u>	<u>88,467</u>
Income taxes:			
Current	1,337	2,398	19,655
Deferred	(45)	924	7,574
Total income taxes	<u>1,292</u>	<u>3,322</u>	<u>27,229</u>
Profit	<u>4,538</u>	<u>7,471</u>	<u>61,238</u>
Profit attributable to:			
Owners of the parent	4,244	6,852	56,164
Non-controlling interests	294	619	5,074
Total profit	<u>¥ 4,538</u>	<u>¥ 7,471</u>	<u>\$ 61,238</u>
Per share:			
Net income:			
- Basic	¥ 4.77	¥ 7.45	\$ 0.06
- Diluted	4.46	6.51	0.05
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 2015
	2014	2015	
Profit	¥ 4,538	¥ 7,471	\$ 61,238
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	2,068	3,707	30,385
Deferred gains and losses on hedges	—	164	1,344
Land revaluation increment	—	33	271
Foreign currency translation adjustments	(3)	—	—
Retirement benefit adjustments	309	230	1,885
Share of other comprehensive income of affiliates accounted for using the equity method	183	193	1,582
Total other comprehensive income	2,557	4,327	35,467
Comprehensive income	¥ 7,095	¥ 11,798	\$ 96,705
Comprehensive income attributable to:			
Owners of the parent	¥ 6,681	¥ 11,066	\$ 90,705
Non-controlling interests	414	732	6,000
Total comprehensive income	¥ 7,095	¥ 11,798	\$ 96,705

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 2015, which was ¥122 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 2014 and 2015 from those for the years ended 31 March 2014 and 2015, 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 2014 and 2015 from those for the years ended 31 March 2014 and 2015, respectively.

(b) Accounting changes

The Company and its consolidated domestic subsidiaries have adopted “Revised Accounting Standard for Business Combination” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 21, 13 September 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, 13 September 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, 13 September 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”)

from the beginning of the current fiscal year, except for article 39 of Statement No. 22 and, as a result, changed the accounting policies: to recognise in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries, over which the Company continues control; and to record the acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed the accounting policies for the reallocation of acquisition costs due to the completion of the provisional accounting to reflect such reallocation in the quarterly consolidated financial statements for the quarter in which the business combination took place. In addition, the Company has changed the presentation of net income and other related items, and the presentation of minority interests to non-controlling interests. In order to reflect these changes in presentation, the reclassification of accounts has been made to the consolidated fiscal statements for the three-month period ended 30 June 2014 and the fiscal year ended 31 March 2015.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the three-month period ended 30 June 2015 into the future.

The effects on the consolidated financial statements for the three-month period ended 30 June 2015 were not material.

3. Contingent liabilities

At 31 March 2015 and 30 June 2015, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	31 March 2015	30 June 2015	30 June 2015
Contingently liable for:			
Guarantees of loans of others	¥426	¥455	\$3,730
Guarantees under debt assumption agreements	10,000	10,000	81,967
Total	¥10,426	¥10,455	\$85,697

4. Net assets

At the ordinary shareholders' meeting held on 26 June 2014 and 25 June 2015, the shareholders approved cash dividends of ¥4.00 per share and ¥4.50 per share, amounting to ¥3,556 million and ¥4,139 million (\$33,926 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 2014 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	¥38,661	¥32,202	¥11,438	¥11,927	¥31,260	¥9,856	¥135,344	¥—	¥135,344
Intersegment sales/transfer	543	108	1,687	422	3,628	4,592	10,980	(10,980)	—
Total	¥39,204	¥32,310	¥13,125	¥12,349	¥34,888	¥14,448	¥146,324	¥(10,980)	¥135,344
Segment income (loss) (*2)	4,033	631	1,501	(461)	40	(1)	5,743	178	5,921

*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 ¥178 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 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

	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	\$332,566	\$266,271	\$131,213	\$103,057	\$249,123	\$85,180	\$1,167,410	\$—	\$1,167,410
Intersegment sales/transfer	4,639	860	14,877	3,369	23,139	37,238	84,122	(84,122)	—
Total	\$337,205	\$267,131	\$146,090	\$106,426	\$272,262	\$122,418	\$1,251,532	\$(84,122)	\$1,167,410
Segment income (*2)	51,959	11,648	18,697	549	98	205	83,156	1,319	84,475

*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 (\$1,319 thousand) was treated as intersegment elimination.

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