

**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 September 2015	30 September 2015
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 15,776	¥ 20,112	\$ 167,600
Short-term investments	731	847	7,058
Trade notes and accounts receivable	54,064	52,687	439,059
Inventories	62,410	67,247	560,392
Deferred tax assets	5,387	4,468	37,233
Others	19,076	19,500	162,500
Less allowance for doubtful accounts	(824)	(180)	(1,500)
Total current assets	156,620	164,681	1,372,342
<b>Property and equipment:</b>			
Land	363,959	360,010	3,000,083
Buildings and structures	680,184	680,080	5,667,333
Machinery, equipment and vehicles	301,720	306,063	2,550,525
Other properties	63,846	63,554	529,617
Construction in progress	22,750	26,133	217,775
	1,432,459	1,435,840	11,965,333
Less accumulated depreciation	(656,193)	(662,477)	(5,520,642)
Property and equipment, net	776,266	773,363	6,444,691
<b>Investments and other assets:</b>			
Investment securities	72,121	71,155	592,958
Investments in unconsolidated subsidiaries and affiliates	28,420	29,459	245,492
Deferred tax assets	9,056	8,875	73,958
Intangible assets	10,069	9,512	79,267
Other assets	16,236	16,179	134,825
Allowance for doubtful accounts	(1,802)	(1,858)	(15,483)
Total investments and other assets	134,100	133,322	1,111,017
<b>Total assets</b>	¥ 1,066,986	¥ 1,071,366	\$ 8,928,050

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 September 2015	30 September 2015
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings	¥ 33,646	¥ 27,991	\$ 233,258
Current portion of long-term debt	52,588	57,655	480,458
Trade notes and accounts payable	74,234	58,173	484,775
Accrued expenses	15,119	15,542	129,517
Income taxes payable	4,822	5,365	44,708
Provisions	2,012	2,422	20,183
Other current liabilities	73,970	75,448	628,734
Total current liabilities	256,391	242,596	2,021,633
<b>Non-current liabilities:</b>			
Long-term debt	389,114	399,597	3,329,975
Accrued retirement benefits for directors and corporate auditors	1,630	1,535	12,792
Deferred tax liabilities	6,443	6,590	54,917
Deferred tax liabilities for land revaluation	57,515	57,303	477,525
Provisions	8,391	8,044	67,033
Employee retirement benefit liability	36,408	35,927	299,391
Other non-current liabilities	19,609	20,411	170,092
Total non-current liabilities	519,110	529,407	4,411,725
Total liabilities	775,501	772,003	6,433,358
<b>Contingent liabilities (Note 3)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 4):</b>			
Common stock: authorised - 1,800,000 thousand shares issued - 919,773 thousand shares at 31 March 2015 and 30 September 2015	88,864	88,864	740,534
Capital surplus	23,107	23,110	192,583
Retained earnings	63,237	67,750	564,583
Treasury stock - at cost: 202 thousand shares at 31 March 2015 and 362 thousand shares at 30 September 2015	(51)	(126)	(1,050)
Total shareholders' equity	175,157	179,598	1,496,650
<b>Accumulated other comprehensive income (loss):</b>			
Net unrealised gains on available-for-sale securities	23,910	23,753	197,942
Deferred gains and losses on hedges	(189)	(298)	(2,483)
Land revaluation increment	75,748	77,812	648,433
Foreign currency translation adjustments	(9)	(8)	(67)
Retirement benefit adjustments	(2,285)	(1,909)	(15,908)
Total accumulated other comprehensive income (loss)	97,175	99,350	827,917
<b>Non-controlling interests</b>	19,153	20,415	170,125
Total net assets	291,485	299,363	2,494,692
<b>Total liabilities and net assets</b>	¥ 1,066,986	¥ 1,071,366	\$ 8,928,050

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Income (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Six-month periods ended 30 September		Six-month period ended 30 September 2015
	2014	2015	
<b>Operating revenues (Note 5)</b>	¥ 284,885	¥ 293,352	\$ 2,444,600
<b>Operating expenses</b>			
Transportation, other services and cost of sales	244,436	245,719	2,047,658
Selling, general and administrative expenses	24,786	25,467	212,225
Total operating expenses	<u>269,222</u>	<u>271,186</u>	<u>2,259,883</u>
<b>Operating income</b>	<u>15,663</u>	<u>22,166</u>	<u>184,717</u>
<b>Other income (expenses):</b>			
Interest and dividend income	794	917	7,642
Interest expense	(2,920)	(2,468)	(20,567)
Equity in net earnings of affiliates	1,476	1,322	11,017
Impairment loss on fixed assets	(260)	(3,964)	(33,034)
Gain on sale or disposition of property and equipment, net	500	931	7,758
Gain on contributions for construction	1,045	559	4,658
Loss on reduction of property and equipment	(1,031)	(520)	(4,333)
Others, net	(152)	(312)	(2,600)
Other income (expenses), net	<u>(548)</u>	<u>(3,535)</u>	<u>(29,459)</u>
<b>Profit before income taxes</b>	<u>15,115</u>	<u>18,631</u>	<u>155,258</u>
<b>Income taxes:</b>			
Current	3,618	5,502	45,850
Deferred	780	1,351	11,258
Total income taxes	<u>4,398</u>	<u>6,853</u>	<u>57,108</u>
<b>Profit</b>	<u>10,717</u>	<u>11,778</u>	<u>98,150</u>
<b>Profit attributable to:</b>			
Owners of the parent	9,895	10,391	86,592
Non-controlling interests	822	1,387	11,558
Total profit	<u>¥ 10,717</u>	<u>¥ 11,778</u>	<u>\$ 98,150</u>
<b>Per share:</b>			
Net income:			
- Basic	¥ 11.07	¥ 11.30	\$ 0.09
- Diluted	10.06	9.87	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)
	Six-month periods ended 30 September		Six-month period ended 30 September 2015
	2014	2015	
<b>Profit</b>	¥ 10,717	¥ 11,778	\$ 98,150
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	3,647	(86)	(717)
Deferred gains and losses on hedges	—	(113)	(942)
Land revaluation increment	—	33	275
Foreign currency translation adjustments	(5)	2	17
Retirement benefit adjustments	618	437	3,642
Share of other comprehensive income of affiliates accounted for using the equity method	163	(83)	(692)
Total other comprehensive income	4,423	190	1,583
<b>Comprehensive income</b>	¥ 15,140	¥ 11,968	\$ 99,733
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥ 14,080	¥ 10,530	\$ 87,750
Non-controlling interests	1,060	1,438	11,983
Total comprehensive income	¥ 15,140	¥ 11,968	\$ 99,733

See Notes to Quarterly Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Six-month periods ended 30 September		Six-month period ended 30 September 2015
	2014	2015	
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 15,115	¥ 18,631	\$ 155,258
Adjustments for:			
Depreciation and amortisation	19,082	19,205	160,042
Impairment loss on fixed assets	260	3,963	33,025
Increase in employee retirement benefit liability	3,574	88	733
Decrease in trade notes and accounts receivable	3,347	291	2,425
Increase in inventories	(5,268)	(4,142)	(34,517)
Decrease in trade notes and accounts payable	(13,629)	(13,414)	(111,783)
Others, net	(1,334)	(1,380)	(11,500)
Subtotal	21,147	23,242	193,683
Interest and dividends received	1,056	1,278	10,650
Interest paid	(3,013)	(2,434)	(20,284)
Extra retirement benefits paid	(3)	(1)	(8)
Income taxes paid	(4,725)	(4,122)	(34,350)
Net cash provided by operating activities	14,462	17,963	149,691
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(21,335)	(24,900)	(207,500)
Proceeds from sales of property and equipment	952	3,482	29,017
Proceeds for contributions for construction	2,446	3,152	26,267
Purchases of investments securities	(51)	(182)	(1,517)
Proceeds from sales or redemptions of investment securities	161	1,156	9,633
Proceeds from acquisition of subsidiaries' stock, net of cash acquired	490	—	—
Others, net	446	(64)	(533)
Net cash used in investing activities	(16,891)	(17,356)	(144,633)
<b>Cash flows from financing activities:</b>			
Increase in long-term debt	52,947	33,037	275,308
Repayment of long-term debt	(55,889)	(19,219)	(160,158)
Net increase (decrease) in short-term borrowings	3,472	(5,804)	(48,367)
Dividends paid to shareholders	(3,530)	(4,119)	(34,325)
Others, net	(207)	(168)	(1,400)
Net cash (used in) provided by financing activities	(3,207)	3,727	31,058
Effect of exchange rate changes on cash and cash equivalents	(4)	2	17
Net (decrease) increase in cash and cash equivalents	(5,640)	4,336	36,133
Cash and cash equivalents at beginning of period	13,405	15,776	131,467
Cash and cash equivalents at end of period	¥ 7,765	¥ 20,112	\$ 167,600

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 September 2015, which was ¥120 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 six-month periods ended 30 September 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 six-month periods ended 30 September 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, 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 quarterly consolidated financial statements for the six-month period ended 30 September 2014 and the consolidated financial statements for the fiscal year ended 31 March 2015.

In the quarterly consolidated statements of cash flows for the six-month period ended 30 September 2015, cash flows from acquisition or disposal of the shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs of the shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of the shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

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 six-month period ended 30 September 2015 into the future.

The effects on the quarterly consolidated financial statements for the six-month period ended 30 September 2015 were not material.

### 3. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	31 March 2015	30 September 2015	30 September 2015
Contingently liable for:			
Guarantees of loans of others	¥426	¥469	\$3,909
Guarantees under debt assumption agreements	10,000	10,000	83,333
Total	¥10,426	¥10,469	\$87,242

### 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 (\$34,492 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 six-month period ended 30 September 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	¥77,954	¥66,352	¥28,322	¥26,035	¥61,993	¥24,229	¥284,885	¥—	¥284,885
Intersegment sales/transfer	1,084	227	3,302	720	7,375	9,091	21,799	(21,799)	—
Total	¥79,038	¥66,579	¥31,624	¥26,755	¥69,368	¥33,320	¥306,684	¥(21,799)	¥284,885
Segment income (*2)	8,136	2,267	3,377	453	12	1,123	15,368	295	15,663

\*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 ¥295 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 six-month period ended 30 September 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	¥81,519	¥65,945	¥33,757	¥26,924	¥61,437	¥23,770	¥293,352	¥—	¥293,352
Intersegment sales/transfer	1,151	214	3,486	768	5,570	8,810	19,999	(19,999)	—
Total	¥82,670	¥66,159	¥37,243	¥27,692	¥67,007	¥32,580	¥313,351	¥(19,999)	¥293,352
Segment income (*2)	12,514	3,333	3,581	1,175	7	1,277	21,887	279	22,166

	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	\$679,325	\$549,542	\$281,308	\$224,367	\$511,975	\$198,083	\$2,444,600	\$—	\$2,444,600
Intersegment sales/transfer	9,591	1,783	29,050	6,400	46,417	73,417	166,658	(166,658)	—
Total	\$688,916	\$551,325	\$310,358	\$230,767	\$558,392	\$271,500	\$2,611,258	\$(166,658)	\$2,444,600
Segment income (*2)	104,283	27,775	29,842	9,792	58	10,642	182,392	2,325	184,717

\*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 ¥279 million (\$2,325 thousand) was treated as intersegment elimination.

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