

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 September 2016	30 September 2016
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 16,922	¥ 21,251	\$ 210,406
Short-term investments	794	786	7,782
Trade notes and accounts receivable	55,711	53,316	527,881
Inventories	64,029	65,646	649,961
Deferred tax assets	3,411	4,577	45,317
Others	17,260	19,219	190,287
Less allowance for doubtful accounts	(203)	(304)	(3,010)
Total current assets	157,924	164,491	1,628,624
Property and equipment:			
Land	359,804	363,969	3,603,653
Buildings and structures	677,307	681,693	6,749,436
Machinery, equipment and vehicles	307,164	311,029	3,079,495
Other properties	65,146	64,116	634,812
Construction in progress	27,785	27,629	273,554
	1,437,206	1,448,436	14,340,950
Less accumulated depreciation	(663,008)	(671,286)	(6,646,396)
Property and equipment, net	774,198	777,150	7,694,554
Investments and other assets:			
Investment securities	66,317	61,596	609,861
Investments in unconsolidated subsidiaries and affiliates	30,763	31,793	314,782
Deferred tax assets	10,573	11,463	113,495
Intangible assets	10,605	9,754	96,574
Other assets	16,239	16,667	165,020
Allowance for doubtful accounts	(2,012)	(1,823)	(18,049)
Total investments and other assets	132,485	129,450	1,281,683
Total assets	¥ 1,064,607	¥ 1,071,091	\$ 10,604,861

See Notes to Quarterly Consolidated Financial Statements.

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	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2016	30 September 2016	30 September 2016
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 26,287	¥ 21,613	\$ 213,990
Current portion of long-term debt	59,114	83,422	825,960
Trade notes and accounts payable	69,403	54,525	539,851
Accrued expenses	15,472	15,813	156,564
Income taxes payable	6,246	9,423	93,297
Provisions	2,142	2,085	20,644
Other current liabilities	75,386	81,248	804,436
Total current liabilities	254,050	268,129	2,654,742
Non-current liabilities:			
Long-term debt	372,968	356,441	3,529,119
Accrued retirement benefits for directors and corporate auditors	1,738	1,537	15,218
Deferred tax liabilities	3,638	3,503	34,683
Deferred tax liabilities for land revaluation	54,245	54,207	536,703
Provisions	8,564	8,217	81,356
Employee retirement benefit liability	37,340	35,762	354,079
Other non-current liabilities	18,516	18,487	183,040
Total non-current liabilities	497,009	478,154	4,734,198
Total liabilities	751,059	746,283	7,388,940
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 September 2016	88,864	88,864	879,842
Capital surplus	23,042	23,146	229,168
Retained earnings	80,615	91,246	903,426
Treasury stock - at cost: 449 thousand shares at 31 March 2016 and 580 thousand shares at 30 September 2016	(170)	(245)	(2,426)
Total shareholders' equity	192,351	203,011	2,010,010
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	20,355	16,970	168,020
Deferred gains and losses on hedges	(615)	(470)	(4,653)
Land revaluation increment	82,538	82,504	816,871
Foreign currency translation adjustments	(9)	(24)	(238)
Retirement benefit adjustments	(3,628)	(2,767)	(27,396)
Total accumulated other comprehensive income (loss)	98,641	96,213	952,604
Non-controlling interests	22,556	25,584	253,307
Total net assets	313,548	324,808	3,215,921
Total liabilities and net assets	¥ 1,064,607	¥ 1,071,091	\$ 10,604,861

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 2016
	2015	2016	
Operating revenues (Note 5)	¥ 293,352	¥ 292,293	\$ 2,893,990
Operating expenses			
Transportation, other services and cost of sales	245,719	243,064	2,406,574
Selling, general and administrative expenses	25,467	25,890	256,337
Total operating expenses	271,186	268,954	2,662,911
Operating income	22,166	23,339	231,079
Other income (expenses):			
Interest and dividend income	917	1,023	10,129
Interest expense	(2,468)	(2,139)	(21,178)
Equity in net earnings of affiliates	1,322	1,650	16,337
Impairment loss on fixed assets	(3,964)	(115)	(1,139)
Gain on sale or disposition of property and equipment, net	931	357	3,535
Gain on contributions for construction	559	20	198
Loss on reduction of property and equipment	(520)	(10)	(99)
Others, net	(312)	915	9,059
Other income (expenses), net	(3,535)	1,701	16,842
Profit before income taxes	18,631	25,040	247,921
Income taxes:			
Current	5,502	9,563	94,683
Deferred	1,351	(1,269)	(12,564)
Total income taxes	6,853	8,294	82,119
Profit	11,778	16,746	165,802
Profit attributable to:			
Owners of the parent	10,391	15,182	150,317
Non-controlling interests	1,387	1,564	15,485
Total profit	¥ 11,778	¥ 16,746	\$ 165,802
Per share:			
Net income:			
- Basic	¥ 11.30	¥ 16.52	\$ 0.16
- Diluted	9.87	14.42	0.14
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 2016
	2015	2016	
Profit	¥ 11,778	¥ 16,746	\$ 165,802
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	(86)	(3,244)	(32,119)
Deferred gains and losses on hedges	(113)	164	1,624
Land revaluation increment	33	14	139
Foreign currency translation adjustments	2	(16)	(158)
Retirement benefit adjustments	437	956	9,465
Share of other comprehensive income of affiliates accounted for using the equity method	(83)	(185)	(1,832)
Total other comprehensive income	190	(2,311)	(22,881)
Comprehensive income	¥ 11,968	¥ 14,435	\$ 142,921
Comprehensive income attributable to:			
Owners of the parent	¥ 10,530	¥ 12,799	\$ 126,723
Non-controlling interests	1,438	1,636	16,198
Total comprehensive income	¥ 11,968	¥ 14,435	\$ 142,921

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 2016
	2015	2016	
Cash flows from operating activities:			
Profit before income taxes	¥ 18,631	¥ 25,040	\$ 247,921
Adjustments for:			
Depreciation and amortisation	19,205	18,948	187,604
Impairment loss on fixed assets	3,963	115	1,139
Increase (decrease) in employee retirement benefit liability	88	(180)	(1,782)
Decrease in trade notes and accounts receivable	291	1,753	17,356
Increase in inventories	(4,142)	(3,810)	(37,723)
Decrease in trade notes and accounts payable	(13,414)	(10,397)	(102,941)
Others, net	(1,380)	(1,273)	(12,604)
Subtotal	23,242	30,196	298,970
Interest and dividends received	1,278	1,440	14,257
Interest paid	(2,434)	(2,169)	(21,475)
Extra retirement benefits paid	(1)	—	—
Income taxes paid	(4,122)	(6,471)	(64,069)
Net cash provided by operating activities	17,963	22,996	227,683
Cash flows from investing activities:			
Purchases of property and equipment	(24,900)	(24,345)	(241,040)
Proceeds from sales of property and equipment	3,482	1,052	10,416
Proceeds for contributions for construction	3,152	4,553	45,079
Purchases of investments securities	(182)	(35)	(346)
Proceeds from sales or redemptions of investment securities	1,156	286	2,832
Others, net	(64)	252	2,495
Net cash used in investing activities	(17,356)	(18,237)	(180,564)
Cash flows from financing activities:			
Increase in long-term debt	33,037	35,208	348,594
Repayment of long-term debt	(19,219)	(27,816)	(275,406)
Net decrease in short-term borrowings	(5,804)	(4,624)	(45,782)
Dividends paid to shareholders	(4,119)	(4,578)	(45,327)
Others, net	(168)	1,394	13,802
Net cash provided by (used in) financing activities	3,727	(416)	(4,119)
Effect of exchange rate changes on cash and cash equivalents	2	(14)	(139)
Net increase in cash and cash equivalents	4,336	4,329	42,861
Cash and cash equivalents at beginning of period	15,776	16,922	167,545
Cash and cash equivalents at end of period	¥ 20,112	¥ 21,251	\$ 210,406

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 2016, which was ¥101 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 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 six-month periods ended 30 September 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 six-month period ended 30 September 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 six-month period ended 30 September 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 six-month period ended 30 September 2016.

3. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	31 March 2016	30 September 2016	30 September 2016
Contingently liable for:			
Guarantees of loans of others	¥490	¥532	\$5,267
Guarantees under debt assumption agreements	10,000	10,000	99,010
Total	¥10,490	¥10,532	\$104,277

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 (\$45,515 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 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

*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 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 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	¥82,053	¥64,604	¥35,484	¥26,636	¥59,458	¥24,058	¥292,293	¥—	¥292,293
Intersegment sales/transfer	1,145	231	3,493	784	4,846	9,092	19,591	(19,591)	—
Total	¥83,198	¥64,835	¥38,977	¥27,420	¥64,304	¥33,150	¥311,884	¥(19,591)	¥292,293
Segment income (*2)	12,697	3,478	4,742	827	195	1,115	23,054	285	23,339

	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	\$812,406	\$639,643	\$351,327	\$263,723	\$588,693	\$238,198	\$2,893,990	\$—	\$2,893,990
Intersegment sales/transfer	11,337	2,287	34,584	7,762	47,980	90,020	193,970	(193,970)	—
Total	\$823,743	\$641,930	\$385,911	\$271,485	\$636,673	\$328,218	\$3,087,960	\$(193,970)	\$2,893,990
Segment income (*2)	125,713	34,436	46,950	8,188	1,931	11,039	228,257	2,822	231,079

*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 ¥285 million (\$2,822 thousand) was treated as intersegment elimination.

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