

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	31 December 2015	31 December 2015
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 15,776	¥ 33,423	\$ 278,525
Short-term investments	731	766	6,383
Trade notes and accounts receivable	54,064	54,340	452,834
Inventories	62,410	70,868	590,567
Deferred tax assets	5,387	2,250	18,750
Others	19,076	20,119	167,658
Less allowance for doubtful accounts	(824)	(203)	(1,692)
Total current assets	156,620	181,563	1,513,025
Property and equipment:			
Land	363,959	359,994	2,999,950
Buildings and structures	680,184	680,884	5,674,033
Machinery, equipment and vehicles	301,720	305,599	2,546,658
Other properties	63,846	64,116	534,300
Construction in progress	22,750	28,406	236,717
	1,432,459	1,438,999	11,991,658
Less accumulated depreciation	(656,193)	(666,936)	(5,557,800)
Property and equipment, net	776,266	772,063	6,433,858
Investments and other assets:			
Investment securities	72,121	75,870	632,250
Investments in unconsolidated subsidiaries and affiliates	28,420	30,541	254,509
Deferred tax assets	9,056	8,975	74,792
Intangible assets	10,069	9,144	76,200
Other assets	16,236	15,967	133,058
Allowance for doubtful accounts	(1,802)	(1,856)	(15,467)
Total investments and other assets	134,100	138,641	1,155,342
Total assets	¥ 1,066,986	¥ 1,092,267	\$ 9,102,225

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	31 December 2015	31 December 2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 33,646	¥ 30,442	\$ 253,683
Current portion of long-term debt	52,588	55,557	462,975
Trade notes and accounts payable	74,234	56,723	472,692
Accrued expenses	15,119	13,326	111,050
Income taxes payable	4,822	4,662	38,850
Provisions	2,012	2,350	19,583
Other current liabilities	73,970	81,655	680,459
Total current liabilities	256,391	244,715	2,039,292
Non-current liabilities:			
Long-term debt	389,114	403,870	3,365,583
Accrued retirement benefits for directors and corporate auditors	1,630	1,624	13,533
Deferred tax liabilities	6,443	7,759	64,658
Deferred tax liabilities for land revaluation	57,515	57,288	477,400
Provisions	8,391	8,043	67,025
Employee retirement benefit liability	36,408	35,987	299,892
Other non-current liabilities	19,609	20,852	173,767
Total non-current liabilities	519,110	535,423	4,461,858
Total liabilities	775,501	780,138	6,501,150
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 31 December 2015	88,864	88,864	740,534
Capital surplus	23,107	23,044	192,033
Retained earnings	63,237	76,534	637,783
Treasury stock - at cost: 202 thousand shares at 31 March 2015 and 409 thousand shares at 31 December 2015	(51)	(149)	(1,242)
Total shareholders' equity	175,157	188,293	1,569,108
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	23,910	26,715	222,625
Deferred gains and losses on hedges	(189)	(505)	(4,208)
Land revaluation increment	75,748	77,842	648,683
Foreign currency translation adjustments	(9)	(10)	(83)
Retirement benefit adjustments	(2,285)	(1,725)	(14,375)
Total accumulated other comprehensive income (loss)	97,175	102,317	852,642
Non-controlling interests	19,153	21,519	179,325
Total net assets	291,485	312,129	2,601,075
Total liabilities and net assets	¥ 1,066,986	¥ 1,092,267	\$ 9,102,225

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 2015
	2014	2015	
Operating revenues (Note 5)	¥ 438,317	¥ 444,782	\$ 3,706,517
Operating expenses			
Transportation, other services and cost of sales	372,984	370,650	3,088,750
Selling, general and administrative expenses	36,957	38,216	318,467
Total operating expenses	409,941	408,866	3,407,217
Operating income	28,376	35,916	299,300
Other income (expenses):			
Interest and dividend income	1,160	1,310	10,917
Interest expense	(4,276)	(3,672)	(30,600)
Equity in net earnings of affiliates	2,114	2,250	18,750
Impairment loss on fixed assets	(792)	(3,998)	(33,317)
Gain on sale or disposition of property and equipment, net	776	1,270	10,583
Gain on contributions for construction	1,053	581	4,842
Loss on reduction of property and equipment	(1,035)	(541)	(4,508)
Others, net	(796)	(20)	(167)
Other income (expenses), net	(1,796)	(2,820)	(23,500)
Profit before income taxes	26,580	33,096	275,800
Income taxes:			
Current	5,263	8,009	66,741
Deferred	2,986	3,419	28,492
Total income taxes	8,249	11,428	95,233
Profit	18,331	21,668	180,567
Profit attributable to:			
Owners of the parent	16,606	19,206	160,050
Non-controlling interests	1,725	2,462	20,517
Total profit	¥ 18,331	¥ 21,668	\$ 180,567
Per share:			
Net income:			
- Basic	¥ 18.46	¥ 20.89	\$ 0.17
- Diluted	16.79	18.24	0.15
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 2015
	2014	2015	
Profit	¥ 18,331	¥ 21,668	\$ 180,567
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	6,726	2,671	22,258
Deferred gains and losses on hedges	(197)	(327)	(2,725)
Land revaluation increment	126	33	275
Foreign currency translation adjustments	6	(1)	(8)
Retirement benefit adjustments	928	651	5,425
Share of other comprehensive income of affiliates accounted for using the equity method	368	170	1,416
Total other comprehensive income	7,957	3,197	26,641
Comprehensive income	¥ 26,288	¥ 24,865	\$ 207,208
Comprehensive income attributable to:			
Owners of the parent	¥ 24,265	¥ 22,280	\$ 185,666
Non-controlling interests	2,023	2,585	21,542
Total comprehensive income	¥ 26,288	¥ 24,865	\$ 207,208

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 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 nine-month periods ended 31 December 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 nine-month periods ended 31 December 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 nine-month period ended 31 December 2014 and the consolidated financial statements for 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 nine-month period ended 31 December 2015 into the future.

The effects on the quarterly consolidated financial statements for the nine-month period ended 31 December 2015 were not material.

3. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	31 March 2015	31 December 2015	31 December 2015
Contingently liable for:			
Guarantees of loans of others	¥426	¥485	\$4,042
Guarantees under debt assumption agreements	10,000	10,000	83,333
Total	¥10,426	¥10,485	\$87,375

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 nine-month period ended 31 December 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	¥118,163	¥101,030	¥45,692	¥39,320	¥95,599	¥38,513	¥438,317	¥—	¥438,317
Intersegment sales/transfer	1,669	322	4,966	1,119	11,205	14,163	33,444	(33,444)	—
Total	¥119,832	¥101,352	¥50,658	¥40,439	¥106,804	¥52,676	¥471,761	¥(33,444)	¥438,317
Segment income (*2)	13,687	3,924	5,989	1,060	546	2,786	27,992	384	28,376

*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 ¥384 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 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

	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	\$1,024,025	\$835,658	\$408,967	\$336,342	\$788,117	\$313,408	\$3,706,517	\$—	\$3,706,517
Intersegment sales/transfer	14,425	2,517	42,475	9,933	68,591	116,267	254,208	(254,208)	—
Total	\$1,038,450	\$838,175	\$451,442	\$346,275	\$856,708	\$429,675	\$3,960,725	\$(254,208)	\$3,706,517
Segment income (*2)	161,225	46,517	47,642	16,450	4,117	19,866	295,817	3,483	299,300

*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 (\$3,483 thousand) was treated as intersegment elimination.

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