

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2014	30 June 2014	30 June 2014
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 13,405	¥ 14,226	\$ 140,851
Short-term investments	993	1,072	10,614
Trade notes and accounts receivable	56,724	47,563	470,921
Inventories	62,459	66,102	654,475
Deferred tax assets	6,142	6,353	62,901
Others	20,337	23,480	232,475
Less allowance for doubtful accounts	(317)	(284)	(2,812)
Total current assets	<u>159,743</u>	<u>158,512</u>	<u>1,569,425</u>
Property and equipment:			
Land	364,383	364,917	3,613,040
Buildings and structures	674,406	676,312	6,696,158
Machinery, equipment and vehicles	302,663	302,405	2,994,109
Other properties	61,126	62,123	615,079
Construction in progress	16,520	17,009	168,406
	<u>1,419,098</u>	<u>1,422,766</u>	<u>14,086,792</u>
Less accumulated depreciation	(641,744)	(648,275)	(6,418,564)
Property and equipment, net	<u>777,354</u>	<u>774,491</u>	<u>7,668,228</u>
Investments and other assets:			
Investment securities	57,503	60,650	600,495
Investments in unconsolidated subsidiaries and affiliates	25,632	25,807	255,515
Deferred tax assets	10,905	10,546	104,416
Intangible assets	9,217	10,231	101,297
Other assets	16,182	16,330	161,683
Allowance for doubtful accounts	(1,857)	(1,835)	(18,168)
Total investments and other assets	<u>117,582</u>	<u>121,729</u>	<u>1,205,238</u>
Total assets	<u>¥ 1,054,679</u>	<u>¥ 1,054,732</u>	<u>\$ 10,442,891</u>

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 2014	30 June 2014	30 June 2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 60,980	¥ 57,251	\$ 566,842
Current portion of long-term debt	78,685	60,221	596,248
Trade notes and accounts payable	73,753	52,606	520,851
Accrued expenses	14,454	15,089	149,396
Income taxes payable	5,419	1,323	13,099
Provisions	2,266	2,326	23,030
Other current liabilities	66,475	69,416	687,287
Total current liabilities	302,032	258,232	2,556,753
Non-current liabilities:			
Long-term debt	369,673	406,511	4,024,861
Accrued retirement benefits for directors and corporate auditors	1,672	1,717	17,000
Deferred tax liabilities	3,920	3,914	38,752
Deferred tax liabilities for land revaluation	63,592	63,592	629,624
Provisions	9,256	8,985	88,960
Employee retirement benefit liability	34,432	37,727	373,535
Other non-current liabilities	18,550	20,589	203,852
Total non-current liabilities	501,095	543,035	5,376,584
Total liabilities	803,127	801,267	7,933,337
Contingent liabilities (Note 3)			
Net assets:			
Shareholders' equity (Note 4):			
Common stock: authorised - 1,800,000 thousand shares issued - 889,340 thousand shares at 31 March 2014 and 893,601 thousand shares at 30 June 2014	85,136	85,657	848,089
Capital surplus	19,379	19,901	197,039
Retained earnings	53,096	51,581	510,703
Treasury stock - at cost: 402 thousand shares at 31 March 2014 and 430 thousand shares at 30 June 2014	(108)	(117)	(1,158)
Total shareholders' equity	157,503	157,022	1,554,673
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	12,844	15,055	149,059
Deferred gains on hedges	3	3	30
Land revaluation increment	67,160	67,159	664,940
Foreign currency translation adjustments	(28)	(31)	(307)
Retirement benefit adjustments	(3,740)	(3,510)	(34,752)
Total accumulated other comprehensive income (loss)	76,239	78,676	778,970
Minority interests	17,810	17,767	175,911
Total net assets	251,552	253,465	2,509,554
Total liabilities and net assets	¥ 1,054,679	¥ 1,054,732	\$ 10,442,891

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 June 2014
	2013	2014	
Operating revenues (Note 5)	¥ 135,686	¥ 135,344	\$ 1,340,040
Operating expenses			
Transportation, other services and cost of sales	117,176	117,159	1,159,990
Selling, general and administrative expenses	11,997	12,264	121,426
Total operating expenses	129,173	129,423	1,281,416
Operating income	6,513	5,921	58,624
Other income (expenses):			
Interest and dividend income	862	764	7,564
Interest expense	(1,764)	(1,489)	(14,743)
Equity in net earnings of affiliates	417	443	4,386
Impairment loss on fixed assets	(37)	(47)	(465)
Gain on sale or disposition of property and equipment, net	286	190	1,881
Gain on contributions for construction	124	231	2,287
Loss on reduction of property and equipment	(116)	(221)	(2,188)
Loss on valuation of investment securities	(246)	(7)	(69)
Others, net	457	45	446
Other income (expenses), net	(17)	(91)	(901)
Income before income taxes and minority interests	6,496	5,830	57,723
Income taxes:			
Current	1,622	1,337	13,238
Deferred	449	(45)	(446)
Total income taxes	2,071	1,292	12,792
Income before minority interests	4,425	4,538	44,931
Minority interests in net income of consolidated subsidiaries	61	294	2,911
Net income	¥ 4,364	¥ 4,244	\$ 42,020
Per share:			
Net income:			
- Basic	¥ 4.96	¥ 4.77	\$ 0.05
- Diluted	4.75	4.46	0.04
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 2014
	2013	2014	
Income before minority interests	¥ 4,425	¥ 4,538	\$ 44,931
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	2,007	2,068	20,475
Foreign currency translation adjustments	10	(3)	(30)
Retirement benefit adjustments	—	309	3,060
Share of other comprehensive income of affiliates accounted for using the equity method	280	183	1,812
Total other comprehensive income	2,297	2,557	25,317
Comprehensive income	¥ 6,722	¥ 7,095	\$ 70,248
Comprehensive income attributable to:			
Owners of the parent	¥ 6,561	¥ 6,681	\$ 66,149
Minority interests	161	414	4,099
Total comprehensive income	¥ 6,722	¥ 7,095	\$ 70,248

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 of the 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 Instrument 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.

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 2014, 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 three-month periods ended 30 June 2013 and 2014 from those for the years ended 31 March 2013 and 2014, 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 2013 and 2014 from those for the years ended 31 March 2013 and 2014, respectively.

(b) Accounting changes

(Adoption of new accounting standard for retirement benefits)

Effective from the three-month period ended 30 June 2014, the Group has applied the main clause of Article 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, revised on 17 May 2012 (hereinafter, "Statement No. 26")) and the main clause of Article 67 of Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, revised on 17 May 2012), and the calculation method of retirement benefit obligations and current service costs have been changed. Specifically, the method of attributing expected benefits to periods has been changed from the point per year basis or straight-line basis to the benefit formula method. In addition, the method of determining the discount rate has been changed from the method using the number of years approximate to the average remaining service period of the employees to the method using the single weighted average discount rate that reflects the estimated period and amount of benefit payment in each period. In accordance with Article 37 of Statement No. 26, the effect of the change in calculation method of retirement benefit obligations and current service costs have been recognised in retained earnings as of 1 April 2014.

As a result of this application, employee retirement benefit liability has increased by ¥3,233 million (\$32,010 thousand) and retained earnings have decreased by ¥2,203 million (\$21,812 thousand) as of 1 April 2014. The impact on profit or loss caused by this change is immaterial.

3. Contingent liabilities

At 31 March 2014 and 30 June 2014, the Group was contingently liable for guarantees of loans in the amounts of ¥680 million and ¥682 million (\$6,752 thousand), respectively.

4. Net assets

At the ordinary shareholders' meeting held on 26 June 2013 and 26 June 2014, the shareholders approved cash dividends of ¥3.00 per share and ¥4.00 per share, amounting to ¥2,638 million and ¥3,556 million (\$35,208 thousand), respectively.

5. Segment information

The Group is engaged in diversified business activities involving traffic, transport, real estate, leisure, distribution, equipment maintenance and the like. The Company's reportable segments are as follows: "Traffic"; "Transport"; "Real Estate"; "Leisure and Services"; and, "Distribution".

Information about reportable segments for the three-month period ended 30 June 2013 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	¥39,045	¥32,675	¥10,982	¥12,247	¥31,258	¥9,479	¥135,686	¥-	¥135,686
Intersegment sales/transfer	584	107	1,731	368	3,545	3,992	10,327	(10,327)	-
Total	¥39,629	¥32,782	¥12,713	¥12,615	¥34,803	¥13,471	¥146,013	¥(10,327)	¥135,686
Segment income (loss) (*2)	4,879	778	990	(77)	389	(637)	6,322	191	6,513

*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 ¥191 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 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

	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	\$382,782	\$318,832	\$113,248	\$118,089	\$309,505	\$97,584	\$1,340,040	\$—	\$1,340,040
Intersegment sales/transfer	5,376	1,069	16,702	4,178	35,921	45,466	108,712	(108,712)	—
Total	\$388,158	\$319,901	\$129,950	\$122,267	\$345,426	\$143,050	\$1,448,752	\$(108,712)	\$1,340,040
Segment income (loss) (*2)	39,930	6,248	14,861	(4,564)	396	(10)	56,861	1,763	58,624

*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 (\$1,763 thousand) was treated as intersegment elimination.

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