

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Quarterly Consolidated Balance Sheets (Unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2013	30 September 2013	30 September 2013
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 9,711	¥ 8,591	\$ 87,663
Short-term investments	712	780	7,959
Trade notes and accounts receivable	59,922	49,984	510,041
Inventories	67,890	73,434	749,327
Deferred tax assets	5,805	6,015	61,378
Others	19,897	20,932	213,591
Less, allowance for doubtful accounts	(263)	(270)	(2,755)
Total current assets	163,674	159,466	1,627,204
Property and equipment:			
Land	367,197	366,712	3,741,959
Buildings and structures	672,493	674,078	6,878,347
Machinery, equipment and vehicles	300,236	300,269	3,063,969
Other properties	60,337	60,796	620,368
Construction in progress	50,327	52,097	531,602
	1,450,590	1,453,952	14,836,245
Less accumulated depreciation	(629,596)	(639,037)	(6,520,786)
Property and equipment, net	820,994	814,915	8,315,459
Investments and other assets:			
Investment securities	53,195	57,953	591,357
Investments in unconsolidated subsidiaries and affiliates	25,676	25,927	264,561
Deferred tax assets	12,807	10,039	102,439
Intangible assets	11,902	11,408	116,408
Other assets	16,575	16,428	167,633
Allowance for doubtful accounts	(1,848)	(1,825)	(18,622)
Total investments and other assets	118,307	119,930	1,223,776
Total assets	¥ 1,102,975	¥ 1,094,311	\$ 11,166,439

See Notes to Quarterly Consolidated Financial Statements.

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	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2013	30 September 2013	30 September 2013
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 72,144	¥ 78,959	\$ 805,704
Current portion of long-term debt	66,820	94,635	965,663
Trade notes and accounts payable	67,391	50,294	513,204
Accrued expenses	14,994	15,120	154,286
Income taxes payable	3,651	3,788	38,653
Provisions	1,872	1,869	19,071
Other current liabilities	96,817	100,487	1,025,378
Total current liabilities	323,689	345,152	3,521,959
Non-current liabilities:			
Long-term debt	421,056	380,245	3,880,051
Employee retirement liability	28,905	28,539	291,214
Accrued retirement benefits for directors and corporate auditors	1,727	1,463	14,929
Deferred tax liabilities	3,697	4,396	44,857
Deferred tax liabilities for land revaluation	63,971	63,849	651,521
Provisions	4,761	8,263	84,316
Other non-current liabilities	19,579	19,625	200,255
Total non-current liabilities	543,696	506,380	5,167,143
Total liabilities	867,385	851,532	8,689,102
Contingent liabilities (Note 3)			
Net assets:			
Shareholders' equity (Note 4):			
Common stock, authorised - 1,800,000 thousand shares issued - 881,585 thousand shares	84,186	84,186	859,041
Capital surplus	18,429	18,429	188,051
Retained earnings	43,394	46,719	476,724
Treasury stock - at cost: 2,451 thousand shares at 31 March 2013 and 2,485 thousand shares at 30 September 2013	(757)	(766)	(7,816)
Total shareholders' equity	145,252	148,568	1,516,000
Accumulated other comprehensive income:			
Net unrealised gains on available-for-sale securities	9,387	13,137	134,051
Deferred gains on hedges	11	11	112
Land revaluation increment	63,140	62,858	641,408
Foreign currency translation adjustments	(53)	(37)	(377)
Total accumulated other comprehensive income	72,485	75,969	775,194
Minority interests	17,853	18,242	186,143
Total net assets	235,590	242,779	2,477,337
Total liabilities and net assets	¥ 1,102,975	¥ 1,094,311	\$ 11,166,439

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
	2012	2013	2013
Operating revenues (Note 5)	¥ 285,942	¥ 285,578	\$ 2,914,061
Operating expenses			
Transportation, other services and cost of sales	247,247	245,160	2,501,632
Selling, general and administrative expenses	24,664	24,367	248,643
Total operating expenses	<u>271,911</u>	<u>269,527</u>	<u>2,750,275</u>
Operating income	<u>14,031</u>	<u>16,051</u>	<u>163,786</u>
Other income (expenses):			
Interest and dividends income	808	911	9,296
Interest expenses	(4,008)	(3,525)	(35,970)
Equity in net earnings of affiliates	642	1,122	11,449
Impairment loss on fixed assets	(1,263)	(1,225)	(12,500)
Gain on sale or disposition of property and equipment	126	541	5,520
Gain on contributions for construction	239	225	2,296
Loss on reduction of property and equipment	(211)	(207)	(2,112)
Loss on valuation of investment securities	(659)	(210)	(2,143)
Others, net	1,005	(2,793)	(28,500)
Other expenses, net	<u>(3,321)</u>	<u>(5,161)</u>	<u>(52,664)</u>
Income before income taxes and minority interests	<u>10,710</u>	<u>10,890</u>	<u>111,122</u>
Income taxes:			
Current	3,275	3,826	39,041
Deferred	399	982	10,020
Total income taxes	<u>3,674</u>	<u>4,808</u>	<u>49,061</u>
Income before minority interests	<u>7,036</u>	<u>6,082</u>	<u>62,061</u>
Minority interests in net income of consolidated subsidiaries	<u>442</u>	<u>399</u>	<u>4,071</u>
Net income	<u>¥ 6,594</u>	<u>¥ 5,683</u>	<u>\$ 57,990</u>
	<u>Yen</u>		<u>U.S. dollars</u>
Per share:			
Net income:			
- Basic	¥ 7.50	¥ 6.46	\$ 0.07
- Diluted	7.19	6.20	0.06
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
	2012	2013	2013
Income before minority interests	¥ 7,036	¥ 6,082	\$ 62,061
Other comprehensive income:			
Net unrealised gains or losses on available-for-sale securities	(5,494)	3,554	36,265
Land revaluation increment	619	—	—
Foreign currency translation adjustments	2	17	174
Share of other comprehensive income of affiliates accounted for using the equity method	(215)	337	3,439
Total other comprehensive income	(5,088)	3,908	39,878
Comprehensive income	¥ 1,948	¥ 9,990	\$ 101,939
Comprehensive income attributable to:			
Owners of the parent	¥ 1,552	¥ 9,449	\$ 96,418
Minority interests	396	541	5,521
Total comprehensive income	¥ 1,948	¥ 9,990	\$ 101,939

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
	2012	2013	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,710	¥ 10,890	\$ 111,122
Adjustments for:			
Depreciation and amortisation	19,642	19,123	195,133
Impairment loss on fixed assets	1,263	1,225	12,500
Decrease in trade notes and accounts receivable	5,889	3,412	34,816
Decrease (increase) in inventories	1,550	(5,103)	(52,071)
Decrease in trade notes and accounts payable	(8,074)	(9,167)	(93,541)
Others, net	3,489	4,851	49,500
Subtotal	34,469	25,231	257,459
Interest and dividends received	1,011	1,156	11,796
Interest paid	(4,091)	(3,569)	(36,418)
Extra retirement benefits paid	(8)	(34)	(347)
Income taxes paid	(2,990)	(3,361)	(34,296)
Net cash provided by operating activities	28,391	19,423	198,194
Cash flows from investing activities:			
Purchases of property and equipment	(26,329)	(21,977)	(224,255)
Proceeds from sales of property and equipment	1,050	1,381	14,092
Proceeds for contributions for construction	9,030	8,358	85,286
Purchases of investments securities	(436)	(340)	(3,469)
Proceeds from sales or redemptions of investment securities	42	1,040	10,612
Others, net	626	222	2,265
Net cash used in investing activities	(16,017)	(11,316)	(115,469)
Cash flows from financing activities:			
Increase in long-term debt	22,477	13,688	139,673
Repayment of long-term debt	(48,132)	(27,397)	(279,561)
Net increase in short-term borrowings	15,445	7,256	74,041
Dividends paid to shareholders	(1,749)	(2,615)	(26,684)
Others, net	(107)	(177)	(1,806)
Net cash used in financing activities	(12,066)	(9,245)	(94,337)
Effect of exchange rate changes on cash and cash equivalents	2	13	132
Net increase (decrease) in cash and cash equivalents	310	(1,125)	(11,480)
Cash and cash equivalents at beginning of year	9,031	9,711	99,092
Increase in cash and cash equivalents from newly consolidated subsidiary	—	5	51
Cash and cash equivalents at end of year	¥ 9,341	¥ 8,591	\$ 87,663

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 September 2013, which was ¥98 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 2012 and 2013 from those for the years ended 31 March 2012 and 2013, 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 2012 and 2013 from those for the years ended 31 March 2012 and 2013, respectively.

(b) Accounting changes

(Change in accounting policies with the amendment of law or regulation that is not distinguishable from change in accounting estimates)

From the six-month period ended 30 September 2012, in accordance with the amendment of the Corporation Tax Act of Japan, the Company and some of the consolidated subsidiaries have changed its depreciation method for property and equipment. Assets acquired on or after 1 April 2012 have been depreciated using the method prescribed in the amended Corporation Tax Act. The effect of this change in the depreciation method has been immaterial.

3. Contingent liabilities

At 31 March 2013 and 30 September 2013, the Group was contingently liable for guarantees of loans in the amounts of ¥1,131 million and ¥904 million (\$9,224 thousand), respectively.

4. Net assets

At the ordinary shareholders' meeting held on 27 June 2012 and 26 June 2013, the shareholders approved cash dividends of ¥2.00 per share and ¥3.00 per share, amounting to ¥1,759 million and ¥2,638 million (\$26,918 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 six-month period ended 30 September 2012 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	¥77,903	¥67,042	¥31,243	¥25,893	¥61,489	¥22,372	¥285,942	¥—	¥285,942
Intersegment sales/transfer	1,154	253	3,418	420	6,633	9,204	21,082	(21,082)	—
Total	¥79,057	¥67,295	¥34,661	¥26,313	¥68,122	¥31,576	¥307,024	¥(21,082)	¥285,942
Segment income (*2)	8,080	2,511	2,500	340	195	118	13,744	287	14,031

*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 ¥287 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 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	¥78,480	¥66,710	¥27,205	¥26,427	¥63,551	¥23,205	¥285,578	¥—	¥285,578
Intersegment sales/transfer	1,149	240	3,312	713	6,985	8,609	21,008	(21,008)	—
Total	¥79,629	¥66,950	¥30,517	¥27,140	¥70,536	¥31,814	¥306,586	¥(21,008)	¥285,578
Segment income (*2)	9,114	2,254	2,671	825	443	449	15,756	295	16,051

	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	\$800,816	\$680,714	\$277,602	\$269,663	\$648,480	\$236,786	\$2,914,061	\$—	\$2,914,061
Intersegment sales/transfer	11,725	2,449	33,796	7,276	71,275	87,847	214,368	(214,368)	—
Total	\$812,541	\$683,163	\$311,398	\$276,939	\$719,755	\$324,633	\$3,128,429	\$(214,368)	\$2,914,061
Segment income (*2)	93,000	23,000	27,255	8,418	4,521	4,582	160,776	3,010	163,786

*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 (\$3,010 thousand) was treated as intersegment elimination.

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

6. Subsequent events

The Company issued the Zero Coupon Convertible Bonds due 2023 based on a resolution of the Board of Directors on 17 September 2013 and completed payment on 3 October 2013. The details are as follows:

1. Total amount of issue : ¥25,000,000,000 and the aggregate principal amount of the Bonds concerning the replacement certificates of Bonds with Stock Acquisition Rights
2. Issue value (Paid-in amount) : 100.0% of the principal amount (principal amount of each Bond : ¥10,000,000)
3. Issue price (offering price) : 102.5% of the principal amount
4. Coupon : Zero
5. Redemption price : 100.0% of the principal amount
6. Maturity date : 3 October 2023 (London time)
7. Matters regarding the Stock Acquisition Rights
 - (1) Class of shares subject to the Stock Acquisition Rights
Shares of Common stock of the Company
 - (2) Number of Stock Acquisition Rights to be issued
The aggregate number of 2,500 rights and the number obtained by dividing the aggregate of the principal amount of the Bonds related to the replacement certificates of Bonds with Stock Acquisition Rights by ¥10,000,000.
 - (3) Initial Conversion Price
¥386 per Share
 - (4) Exercise Period of Stock Acquisition Rights
The exercise period shall be from 17 October 2013 to 19 September 2023 (local time at the place where the Stock Acquisition Rights is to be exercised)
8. Payment date and issuance date of the Bonds : 3 October 2013 (London time)

9. Security or guarantee of the Bonds : No security or guarantee

10. Use of Proceeds

- (1) Approximately ¥9.0 billion as capital expenditure for renewing a portion of train cars, improving facilities of train stations, installation of Automatic Train Stop (“ATS”) systems for crossings and introduction of train on-rail information display systems, for the purposes of improving passenger transportation services and implementing works relating to passenger transportation safety and operational security in the Company’s mainstay business of railroad business;
- (2) Approximately ¥2.0 billion as capital expenditure for renovation and renewal of equipment in properties for lease, and improvement of business systems; and
- (3) The balance for repayment of long-term borrowings due by the end of March 2014.