

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 September 2014	30 September 2014
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 13,405	¥ 7,765	\$ 70,591
Short-term investments	993	894	8,127
Trade notes and accounts receivable	56,724	52,539	477,627
Inventories	62,459	68,279	620,718
Deferred tax assets	6,142	5,689	51,718
Others	20,337	21,056	191,419
Less allowance for doubtful accounts	(317)	(286)	(2,600)
Total current assets	159,743	155,936	1,417,600
Property and equipment:			
Land	364,383	365,504	3,322,764
Buildings and structures	674,406	678,850	6,171,363
Machinery, equipment and vehicles	302,663	302,323	2,748,391
Other properties	61,126	62,514	568,309
Construction in progress	16,520	18,415	167,409
	1,419,098	1,427,606	12,978,236
Less accumulated depreciation	(641,744)	(651,425)	(5,922,045)
Property and equipment, net	777,354	776,181	7,056,191
Investments and other assets:			
Investment securities	57,503	63,087	573,518
Investments in unconsolidated subsidiaries and affiliates	25,632	26,819	243,809
Deferred tax assets	10,905	9,599	87,264
Intangible assets	9,217	10,152	92,291
Other assets	16,182	16,285	148,046
Allowance for doubtful accounts	(1,857)	(1,843)	(16,755)
Total investments and other assets	117,582	124,099	1,128,173
Total assets	¥ 1,054,679	¥ 1,056,216	\$ 9,601,964

See Notes to Quarterly Consolidated Financial Statements.

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	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2014	30 September 2014	30 September 2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 60,980	¥ 64,447	\$ 585,882
Current portion of long-term debt	78,685	45,350	412,273
Trade notes and accounts payable	73,753	56,514	513,764
Accrued expenses	14,454	15,549	141,354
Income taxes payable	5,419	3,566	32,418
Provisions	2,266	2,145	19,500
Other current liabilities	66,475	68,930	626,636
Total current liabilities	<u>302,032</u>	<u>256,501</u>	<u>2,331,827</u>
Non-current liabilities:			
Long-term debt	369,673	399,513	3,631,936
Accrued retirement benefits for directors and corporate auditors	1,672	1,437	13,064
Deferred tax liabilities	3,920	4,066	36,964
Deferred tax liabilities for land revaluation	63,592	63,580	578,000
Provisions	9,256	9,619	87,446
Employee retirement benefit liability	34,432	37,315	339,227
Other non-current liabilities	18,550	20,570	187,000
Total non-current liabilities	<u>501,095</u>	<u>536,100</u>	<u>4,873,637</u>
Total liabilities	<u>803,127</u>	<u>792,601</u>	<u>7,205,464</u>
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 902,817 thousand shares at 30 September 2014	85,136	86,787	788,973
Capital surplus	19,379	21,030	191,182
Retained earnings	53,096	57,086	518,963
Treasury stock - at cost: 402 thousand shares at 31 March 2014 and 498 thousand shares at 30 September 2014	(108)	(147)	(1,336)
Total shareholders' equity	<u>157,503</u>	<u>164,756</u>	<u>1,497,782</u>
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	12,844	16,575	150,682
Deferred gains on hedges	3	3	27
Land revaluation increment	67,160	67,305	611,863
Foreign currency translation adjustments	(28)	(33)	(300)
Retirement benefit adjustments	(3,740)	(3,280)	(29,818)
Total accumulated other comprehensive income (loss)	<u>76,239</u>	<u>80,570</u>	<u>732,454</u>
Minority interests	<u>17,810</u>	<u>18,289</u>	<u>166,264</u>
Total net assets	<u>251,552</u>	<u>263,615</u>	<u>2,396,500</u>
Total liabilities and net assets	<u>¥ 1,054,679</u>	<u>¥ 1,056,216</u>	<u>\$ 9,601,964</u>

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 2014
	2013	2014	
Operating revenues (Note 5)	¥ 285,578	¥ 284,885	\$ 2,589,864
Operating expenses			
Transportation, other services and cost of sales	245,160	244,436	2,222,146
Selling, general and administrative expenses	24,367	24,786	225,327
Total operating expenses	<u>269,527</u>	<u>269,222</u>	<u>2,447,473</u>
Operating income	<u>16,051</u>	<u>15,663</u>	<u>142,391</u>
Other income (expenses):			
Interest and dividend income	911	794	7,218
Interest expense	(3,525)	(2,920)	(26,545)
Equity in net earnings of affiliates	1,122	1,476	13,418
Impairment loss on fixed assets	(1,225)	(260)	(2,364)
Gain on sale or disposition of property and equipment, net	541	500	4,545
Gain on contributions for construction	225	1,045	9,500
Loss on reduction of property and equipment	(207)	(1,031)	(9,373)
Loss on valuation of investment securities	(210)	(7)	(63)
Others, net	(2,793)	(145)	(1,318)
Other income (expenses), net	<u>(5,161)</u>	<u>(548)</u>	<u>(4,982)</u>
Income before income taxes and minority interests	<u>10,890</u>	<u>15,115</u>	<u>137,409</u>
Income taxes:			
Current	3,826	3,618	32,891
Deferred	982	780	7,091
Total income taxes	<u>4,808</u>	<u>4,398</u>	<u>39,982</u>
Income before minority interests	<u>6,082</u>	<u>10,717</u>	<u>97,427</u>
Minority interests in net income of consolidated subsidiaries	<u>399</u>	<u>822</u>	<u>7,472</u>
Net income	<u>¥ 5,683</u>	<u>¥ 9,895</u>	<u>\$ 89,955</u>
Per share:			
Net income:			
- Basic	¥ 6.46	¥ 11.07	\$ 0.10
- Diluted	6.20	10.06	0.09
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 2014
	2013	2014	
Income before minority interests	¥ 6,082	¥ 10,717	\$ 97,427
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	3,554	3,647	33,154
Foreign currency translation adjustments	17	(5)	(45)
Retirement benefit adjustments	—	618	5,618
Share of other comprehensive income of affiliates accounted for using the equity method	337	163	1,482
Total other comprehensive income	3,908	4,423	40,209
Comprehensive income	¥ 9,990	¥ 15,140	\$ 137,636
Comprehensive income attributable to:			
Owners of the parent	¥ 9,449	¥ 14,080	\$ 128,000
Minority interests	541	1,060	9,636
Total comprehensive income	¥ 9,990	¥ 15,140	\$ 137,636

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 2014
	2013	2014	
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,890	¥ 15,115	\$ 137,409
Adjustments for:			
Depreciation and amortisation	19,123	19,082	173,473
Impairment loss on fixed assets	1,225	260	2,364
Decrease in provision for retirement benefits	(365)	—	—
Increase in employee retirement benefit liability	—	3,574	32,491
Decrease in trade notes and accounts receivable	3,412	3,347	30,427
Increase in inventories	(5,103)	(5,268)	(47,891)
Decrease in trade notes and accounts payable	(9,167)	(13,629)	(123,900)
Others, net	5,216	(1,334)	(12,128)
Subtotal	25,231	21,147	192,245
Interest and dividends received	1,156	1,056	9,600
Interest paid	(3,569)	(3,013)	(27,391)
Extra retirement benefits paid	(34)	(3)	(27)
Income taxes paid	(3,361)	(4,725)	(42,954)
Net cash provided by operating activities	19,423	14,462	131,473
Cash flows from investing activities:			
Purchases of property and equipment	(21,977)	(21,335)	(193,955)
Proceeds from sales of property and equipment	1,381	952	8,655
Proceeds for contributions for construction	8,358	2,446	22,236
Purchases of investments securities	(340)	(51)	(464)
Proceeds from sales or redemptions of investment securities	1,040	161	1,464
Proceeds from acquisition of subsidiaries' stock, net of cash acquired	—	490	4,455
Others, net	222	446	4,054
Net cash used in investing activities	(11,316)	(16,891)	(153,555)
Cash flows from financing activities:			
Increase in long-term debt	13,688	52,947	481,336
Repayment of long-term debt	(27,397)	(55,889)	(508,082)
Net increase in short-term borrowings	7,256	3,472	31,564
Dividends paid to shareholders	(2,615)	(3,530)	(32,091)
Others, net	(177)	(207)	(1,882)
Net cash used in financing activities	(9,245)	(3,207)	(29,155)
Effect of exchange rate changes on cash and cash equivalents	13	(4)	(36)
Net decrease in cash and cash equivalents	(1,125)	(5,640)	(51,273)
Cash and cash equivalents at beginning of period	9,711	13,405	121,864
Increase in cash and cash equivalents upon inclusion of additional subsidiary on consolidation	5	—	—
Cash and cash equivalents at end of period	¥ 8,591	¥ 7,765	\$ 70,591

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 2014, which was ¥110 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, except for those described in Note 2(b) and should be read in conjunction with the consolidated financial statements for the year ended 31 March 2014.

(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 2013 and 2014 from those for the years ended 31 March 2013 and 2014, respectively.

(b) Accounting changes

(Adoption of accounting standard for retirement benefits)

Effective from the beginning of the six-month period ended 30 September 2014, the Group has applied the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26, 17 May 2012 (hereinafter, the “Statement No. 26”)) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, 17 May 2012 (hereinafter, the “Guidance No. 25”)) for provisions set in the main clauses of the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25. Accordingly, the Group has changed the method of attributing expected benefits to periods in relation to the calculation method of retirement benefit obligations and current service costs from the point per year basis and straight-line basis to the benefit formula basis. In addition, the Group has changed the method of determining the discount rate from the method

using the discount rate determined based on the period approximate to the expected average remaining service period of the employees to the method using the single weighted average discount rate reflecting the estimated timing and amount of benefit payment. In accordance with the article 37 of the Statement No. 26, the effect of the change in calculation method of retirement benefit obligations and current service costs have been recognised as an adjustment to the opening balance of retained earnings as of the beginning of the six-month period ended 30 September 2014.

As a result of the application, employee retirement benefit liability increased by ¥3,233 million (\$29,391 thousand) and retained earnings decreased by ¥2,203 million (\$20,027 thousand) as of the six-month period ended 30 September 2014. The effect on the income statements for the six-month period ended 30 September 2014 is not material.

3. Contingent liabilities

At 31 March 2014 and 30 September 2014, the Group was contingently liable for guarantees of loans in the amounts of ¥680 million and ¥496 million (\$4,509 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 (\$32,327 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 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

*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 ¥295million 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 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

	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	\$708,672	\$603,200	\$257,473	\$236,682	\$563,573	\$220,264	\$2,589,864	\$—	\$2,589,864
Intersegment sales/transfer	9,855	2,064	30,018	6,545	67,045	82,645	198,172	(198,172)	—
Total	\$718,527	\$605,264	\$287,491	\$243,227	\$630,618	\$302,909	\$2,788,036	\$(198,172)	\$2,589,864
Segment income (*2)	73,964	20,609	30,700	4,118	109	10,209	139,709	2,682	142,391

*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 (\$2,682 thousand) was treated as intersegment elimination.

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