

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	31 December 2014	31 December 2014
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 13,405	¥ 21,834	\$ 181,950
Short-term investments	993	4,739	39,491
Trade notes and accounts receivable	56,724	57,620	480,167
Inventories	62,459	74,022	616,850
Deferred tax assets	6,142	3,344	27,867
Others	20,337	23,602	196,683
Less allowance for doubtful accounts	(317)	(253)	(2,108)
Total current assets	159,743	184,908	1,540,900
Property and equipment:			
Land	364,383	365,218	3,043,483
Buildings and structures	674,406	676,609	5,638,408
Machinery, equipment and vehicles	302,663	300,165	2,501,375
Other properties	61,126	62,802	523,350
Construction in progress	16,520	22,577	188,142
	1,419,098	1,427,371	11,894,758
Less accumulated depreciation	(641,744)	(653,631)	(5,446,925)
Property and equipment, net	777,354	773,740	6,447,833
Investments and other assets:			
Investment securities	57,503	67,940	566,167
Investments in unconsolidated subsidiaries and affiliates	25,632	27,587	229,892
Deferred tax assets	10,905	9,484	79,033
Intangible assets	9,217	9,796	81,633
Other assets	16,182	16,202	135,017
Allowance for doubtful accounts	(1,857)	(1,845)	(15,375)
Total investments and other assets	117,582	129,164	1,076,367
Total assets	¥ 1,054,679	¥ 1,087,812	\$ 9,065,100

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	31 December 2014	31 December 2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings	¥ 60,980	¥ 46,438	\$ 386,983
Current portion of long-term debt	78,685	42,740	356,167
Trade notes and accounts payable	73,753	64,609	538,408
Accrued expenses	14,454	13,542	112,850
Income taxes payable	5,419	2,969	24,742
Provisions	2,266	2,972	24,767
Other current liabilities	66,475	75,691	630,758
Total current liabilities	302,032	248,961	2,074,675
Non-current liabilities:			
Long-term debt	369,673	424,498	3,537,483
Accrued retirement benefits for directors and corporate auditors	1,672	1,524	12,700
Deferred tax liabilities	3,920	5,571	46,425
Deferred tax liabilities for land revaluation	63,592	63,513	529,275
Provisions	9,256	8,566	71,383
Employee retirement benefit liability	34,432	37,343	311,192
Other non-current liabilities	18,550	20,436	170,300
Total non-current liabilities	501,095	561,451	4,678,758
Total liabilities	803,127	810,412	6,753,433
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 915,862 thousand shares at 31 December 2014	85,136	88,385	736,542
Capital surplus	19,379	22,628	188,567
Retained earnings	53,096	63,689	530,741
Treasury stock - at cost: 402 thousand shares at 31 March 2014 and 541 thousand shares at 31 December 2014	(108)	(167)	(1,392)
Total shareholders' equity	157,503	174,535	1,454,458
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	12,844	19,873	165,609
Deferred gains or losses on hedges	3	(188)	(1,567)
Land revaluation increment	67,160	67,539	562,825
Foreign currency translation adjustments	(28)	(22)	(183)
Retirement benefit adjustments	(3,740)	(3,050)	(25,417)
Total accumulated other comprehensive income (loss)	76,239	84,152	701,267
Minority interests	17,810	18,713	155,942
Total net assets	251,552	277,400	2,311,667
Total liabilities and net assets	¥ 1,054,679	¥ 1,087,812	\$ 9,065,100

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
	2013	2014	2014
Operating revenues (Note 5)	¥ 437,833	¥ 438,317	\$ 3,652,642
Operating expenses			
Transportation, other services and cost of sales	373,840	372,984	3,108,200
Selling, general and administrative expenses	36,393	36,957	307,975
Total operating expenses	410,233	409,941	3,416,175
Operating income	27,600	28,376	236,467
Other income (expenses):			
Interest and dividend income	1,234	1,160	9,666
Interest expense	(5,213)	(4,276)	(35,633)
Equity in net earnings of affiliates	1,711	2,114	17,616
Impairment loss on fixed assets	(1,259)	(792)	(6,600)
Gain on sale or disposition of property and equipment, net	746	776	6,467
Gain on contributions for construction	344	1,053	8,775
Loss on reduction of property and equipment	(311)	(1,035)	(8,625)
Loss on valuation of investment securities	(236)	(10)	(83)
Others, net	(2,296)	(786)	(6,550)
Other income (expenses), net	(5,280)	(1,796)	(14,967)
Income before income taxes and minority interests	22,320	26,580	221,500
Income taxes:			
Current	5,081	5,263	43,858
Deferred	3,493	2,986	24,884
Total income taxes	8,574	8,249	68,742
Income before minority interests	13,746	18,331	152,758
Minority interests in net income of consolidated subsidiaries	699	1,725	14,375
Net income	¥ 13,047	¥ 16,606	\$ 138,383
Per share:			
Net income:			
- Basic	¥ 14.84	¥ 18.46	\$ 0.15
- Diluted	13.89	16.79	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)
	Nine-month periods ended 31 December		Nine-month period ended 31 December
	2013	2014	2014
Income before minority interests	¥ 13,746	¥ 18,331	\$ 152,758
Other comprehensive income:			
Net unrealised gains and losses on available-for-sale securities	5,621	6,726	56,050
Deferred gains and losses on hedges	—	(197)	(1,641)
Land revaluation increment	1,018	126	1,050
Foreign currency translation adjustments	15	6	50
Retirement benefit adjustments	—	928	7,733
Share of other comprehensive income of affiliates accounted for using the equity method	435	368	3,067
Total other comprehensive income	<u>7,089</u>	<u>7,957</u>	<u>66,309</u>
Comprehensive income	<u>¥ 20,835</u>	<u>¥ 26,288</u>	<u>\$ 219,067</u>
Comprehensive income attributable to:			
Owners of the parent	¥ 19,948	¥ 24,265	\$ 202,209
Minority interests	887	2,023	16,858
Total comprehensive income	<u>¥ 20,835</u>	<u>¥ 26,288</u>	<u>\$ 219,067</u>

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 31 December 2014, 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, 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 nine-month periods ended 31 December 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 nine-month period ended 31 December 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 nine-month period ended 31 December 2014.

As a result of the application, employee retirement benefit liability increased by ¥3,233 million (\$26,942 thousand) and retained earnings decreased by ¥2,203 million (\$18,358 thousand) as of the nine-month period ended 31 December 2014. The effect on the income statements for the nine-month period ended 31 December 2014 is not material.

3. Contingent liabilities

At 31 March 2014 and 31 December 2014, the Group was contingently liable for guarantees of loans in the amounts of ¥680 million and ¥504 million (\$4,200 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 (\$29,633 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 nine-month period ended 31 December 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	¥118,193	¥102,086	¥39,678	¥40,225	¥99,705	¥37,946	¥437,833	¥—	¥437,833
Intersegment sales/transfer	1,785	341	4,945	1,097	10,741	13,031	31,940	(31,940)	—
Total	¥119,978	¥102,427	¥44,623	¥41,322	¥110,446	¥50,977	¥469,773	¥(31,940)	¥437,833
Segment income (*2)	14,066	3,679	4,217	1,510	1,416	2,337	27,225	375	27,600

*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 ¥375 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 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

	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	\$984,692	\$841,916	\$380,767	\$327,667	\$796,658	\$320,942	\$3,652,642	\$—	\$3,652,642
Intersegment sales/transfer	13,908	2,684	41,383	9,325	93,375	118,025	278,700	(278,700)	—
Total	\$998,600	\$844,600	\$422,150	\$336,992	\$890,033	\$438,967	\$3,931,342	\$(278,700)	\$3,652,642
Segment income (*2)	114,059	32,700	49,908	8,833	4,550	23,217	233,267	3,200	236,467

*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 (\$3,200 thousand) was treated as intersegment elimination.

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