

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	31 December 2013	31 December 2013
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 9,711	¥ 23,534	\$ 224,133
Short-term investments	712	702	6,686
Trade notes and accounts receivable	59,922	54,893	522,790
Inventories	67,890	82,734	787,943
Deferred tax assets	5,805	4,036	38,438
Others	19,897	21,811	207,724
Less, allowance for doubtful accounts	(263)	(295)	(2,809)
Total current assets	163,674	187,415	1,784,905
<b>Property and equipment:</b>			
Land	367,197	366,482	3,490,305
Buildings and structures	672,493	673,964	6,418,705
Machinery, equipment and vehicles	300,236	300,125	2,858,333
Other properties	60,337	60,959	580,562
Construction in progress	50,327	55,078	524,552
	1,450,590	1,456,608	13,872,457
Less accumulated depreciation	(629,596)	(644,087)	(6,134,162)
Property and equipment, net	820,994	812,521	7,738,295
<b>Investments and other assets:</b>			
Investment securities	53,195	61,123	582,124
Investments in unconsolidated subsidiaries and affiliates	25,676	26,556	252,914
Deferred tax assets	12,807	9,707	92,448
Intangible assets	11,902	11,366	108,248
Other assets	16,575	16,140	153,714
Allowance for doubtful accounts	(1,848)	(1,831)	(17,438)
Total investments and other assets	118,307	123,061	1,172,010
<b>Total assets</b>	<b>¥ 1,102,975</b>	<b>¥ 1,122,997</b>	<b>\$ 10,695,210</b>

See Notes to Quarterly Consolidated Financial Statements.

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	Millions of yen		Thousands of U.S. dollars (Note 1)
	31 March 2013	31 December 2013	31 December 2013
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings	¥ 72,144	¥ 76,620	\$ 729,714
Current portion of long-term debt	66,820	86,549	824,276
Trade notes and accounts payable	67,391	57,900	551,429
Accrued expenses	14,994	12,727	121,210
Income taxes payable	3,651	3,098	29,505
Provisions	1,872	2,049	19,514
Other current liabilities	96,817	104,708	997,219
Total current liabilities	323,689	343,651	3,272,867
<b>Non-current liabilities:</b>			
Long-term debt	421,056	399,646	3,806,152
Employee retirement liability	28,905	28,443	270,886
Accrued retirement benefits for directors and corporate auditors	1,727	1,558	14,838
Deferred tax liabilities	3,697	5,709	54,371
Deferred tax liabilities for land revaluation	63,971	62,831	598,391
Provisions	4,761	8,043	76,600
Other non-current liabilities	19,579	19,647	187,114
Total non-current liabilities	543,696	525,877	5,008,352
Total liabilities	867,385	869,528	8,281,219
<b>Contingent liabilities (Note 3)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 4):</b>			
Common stock, authorised - 1,800,000 thousand shares issued - 881,585 thousand shares	84,186	84,186	801,772
Capital surplus	18,429	18,429	175,514
Retained earnings	43,394	53,907	513,400
Treasury stock - at cost: 2,451 thousand shares at 31 March 2013 and 2,536 thousand shares at 31 December 2013	(757)	(781)	(7,438)
Total shareholders' equity	145,252	155,741	1,483,248
<b>Accumulated other comprehensive income:</b>			
Net unrealised gains on available-for-sale securities	9,387	15,255	145,286
Deferred gains on hedges	11	12	114
Land revaluation increment	63,140	64,052	610,019
Foreign currency translation adjustments	(53)	(38)	(362)
Total accumulated other comprehensive income	72,485	79,281	755,057
<b>Minority interests</b>	17,853	18,447	175,686
Total net assets	235,590	253,469	2,413,991
<b>Total liabilities and net assets</b>	¥ 1,102,975	¥ 1,122,997	\$ 10,695,210

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
	2012	2013	2013
<b>Operating revenues (Note 5)</b>	¥ 446,425	¥ 437,833	\$ 4,169,838
<b>Operating expenses</b>			
Transportation, other services and cost of sales	383,042	373,840	3,560,381
Selling, general and administrative expenses	36,704	36,393	346,600
Total operating expenses	419,746	410,233	3,906,981
<b>Operating income</b>	26,679	27,600	262,857
<b>Other income (expenses):</b>			
Interest and dividends income	1,101	1,234	11,752
Interest expenses	(5,898)	(5,213)	(49,648)
Equity in net earnings of affiliates	819	1,711	16,295
Impairment loss on fixed assets	(4,351)	(1,259)	(11,990)
Gain (loss) on sale or disposition of property and equipment	(697)	746	7,105
Gain on contributions for construction	481	344	3,276
Loss on reduction of property and equipment	(426)	(311)	(2,962)
Loss on valuation of investment securities	(502)	(236)	(2,247)
Others, net	357	(2,296)	(21,867)
Other expenses, net	(9,116)	(5,280)	(50,286)
<b>Income before income taxes and minority interests</b>	17,563	22,320	212,571
<b>Income taxes:</b>			
Current	4,197	5,081	48,390
Deferred	2,031	3,493	33,267
Total income taxes	6,228	8,574	81,657
<b>Income before minority interests</b>	11,335	13,746	130,914
<b>Minority interests in net income of consolidated subsidiaries</b>	1,037	699	6,657
<b>Net income</b>	¥ 10,298	¥ 13,047	\$ 124,257
<b>Per share:</b>			
Net income:			
- Basic	¥ 11.71	¥ 14.84	\$ 0.14
- Diluted	11.23	13.89	0.13
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
	2012	2013	2013
<b>Income before minority interests</b>	¥ 11,335	¥ 13,746	\$ 130,914
<b>Other comprehensive income:</b>			
Net unrealised gains or losses on available-for-sale securities	(2,495)	5,621	53,534
Land revaluation increment	989	1,018	9,695
Foreign currency translation adjustments	—	15	143
Share of other comprehensive income of affiliates accounted for using the equity method	(55)	435	4,143
Total other comprehensive income	(1,561)	7,089	67,515
<b>Comprehensive income</b>	9,774	20,835	198,429
<b>Comprehensive income attributable to:</b>			
Owners of the parent	8,712	19,948	189,981
Minority interests	1,062	887	8,448
Total comprehensive income	¥ 9,774	¥ 20,835	198,429

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 2013, which was ¥105 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 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 nine-month periods ended 31 December 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 nine-month period ended 31 December 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 31 December 2013, the Group was contingently liable for guarantees of loans in the amounts of ¥1,131 million and ¥915 million (\$8,714 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 (\$25,124 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 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	¥117,413	¥101,865	¥55,335	¥39,229	¥96,128	¥36,455	¥446,425	¥—	¥446,425
Intersegment sales/transfer	1,752	339	5,027	659	9,938	13,115	30,830	(30,830)	—
Total	¥119,165	¥102,204	¥60,362	¥39,888	¥106,066	¥49,570	¥477,255	¥(30,830)	¥446,425
Segment income (*2)	13,004	3,865	5,738	857	1,195	1,512	26,171	508	26,679

\*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 ¥508 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 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

	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	\$1,125,648	\$972,248	\$377,886	\$383,095	\$949,571	\$361,390	\$4,169,838	\$—	\$4,169,838
Intersegment sales/transfer	17,000	3,247	47,095	10,448	102,295	124,105	304,190	(304,190)	—
Total	\$1,142,648	\$975,495	\$424,981	\$393,543	\$1,051,866	\$485,495	\$4,474,028	\$(304,190)	\$4,169,838
Segment income (*2)	133,962	35,038	40,162	14,381	13,486	22,257	259,286	3,571	262,857

\*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 (\$3,571 thousand) was treated as intersegment elimination.

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