

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Quarterly Consolidated Balance Sheets (Unaudited)**

|                                                           | Millions of yen |                  | Thousands of<br>U.S. dollars<br>(Note 1) |
|-----------------------------------------------------------|-----------------|------------------|------------------------------------------|
|                                                           | 31 March 2014   | 31 December 2014 | 31 December 2014                         |
| <b>ASSETS</b>                                             |                 |                  |                                          |
| <b>Current assets:</b>                                    |                 |                  |                                          |
| 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                                |
| <br><b>Property and equipment:</b>                        |                 |                  |                                          |
| 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                                |
| <br><b>Investments and other assets:</b>                  |                 |                  |                                          |
| 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                                |
| <br><b>Total assets</b>                                   | <br>¥ 1,054,679 | <br>¥ 1,087,812  | <br>\$ 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<br>U.S. dollars<br>(Note 1) |
|------------------------------------------------------------------|-----------------|------------------|------------------------------------------|
|                                                                  | 31 March 2014   | 31 December 2014 | 31 December 2014                         |
| <b>LIABILITIES AND NET ASSETS</b>                                |                 |                  |                                          |
| <b>Current liabilities:</b>                                      |                 |                  |                                          |
| 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                                |
| <b>Non-current liabilities:</b>                                  |                 |                  |                                          |
| 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                                |
| <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 - 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                                |
| <b>Accumulated other comprehensive income (loss):</b>            |                 |                  |                                          |
| 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                                  |
| <b>Minority interests</b>                                        | 17,810          | 18,713           | 155,942                                  |
| Total net assets                                                 | 251,552         | 277,400          | 2,311,667                                |
| <b>Total liabilities and net assets</b>                          | ¥ 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<br>U.S. dollars<br>(Note 1) |
|----------------------------------------------------------------------|--------------------------------------|-----------|------------------------------------------|
|                                                                      | Nine-month periods ended 31 December |           | Nine-month period<br>ended 31 December   |
|                                                                      | 2013                                 | 2014      | 2014                                     |
| <b>Operating revenues (Note 5)</b>                                   | ¥ 437,833                            | ¥ 438,317 | \$ 3,652,642                             |
| <b>Operating expenses</b>                                            |                                      |           |                                          |
| 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                                |
| <b>Operating income</b>                                              | 27,600                               | 28,376    | 236,467                                  |
| <b>Other income (expenses):</b>                                      |                                      |           |                                          |
| 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)                                 |
| <b>Income before income taxes and minority interests</b>             | 22,320                               | 26,580    | 221,500                                  |
| <b>Income taxes:</b>                                                 |                                      |           |                                          |
| Current                                                              | 5,081                                | 5,263     | 43,858                                   |
| Deferred                                                             | 3,493                                | 2,986     | 24,884                                   |
| Total income taxes                                                   | 8,574                                | 8,249     | 68,742                                   |
| <b>Income before minority interests</b>                              | 13,746                               | 18,331    | 152,758                                  |
| <b>Minority interests in net income of consolidated subsidiaries</b> | 699                                  | 1,725     | 14,375                                   |
| <b>Net income</b>                                                    | ¥ 13,047                             | ¥ 16,606  | \$ 138,383                               |
| <b>Per share:</b>                                                    |                                      |           |                                          |
| 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<br>U.S. dollars<br>(Note 1) |
|--------------------------------------------------------------------------------------------|--------------------------------------|----------|------------------------------------------|
|                                                                                            | Nine-month periods ended 31 December |          | Nine-month period<br>ended 31 December   |
|                                                                                            | 2013                                 | 2014     | 2014                                     |
| <b>Income before minority interests</b>                                                    | ¥ 13,746                             | ¥ 18,331 | \$ 152,758                               |
| <b>Other comprehensive income:</b>                                                         |                                      |          |                                          |
| 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<br>for using the equity method | 435                                  | 368      | 3,067                                    |
| Total other comprehensive income                                                           | 7,089                                | 7,957    | 66,309                                   |
| <b>Comprehensive income</b>                                                                | ¥ 20,835                             | ¥ 26,288 | \$ 219,067                               |
| <b>Comprehensive income attributable to:</b>                                               |                                      |          |                                          |
| Owners of the parent                                                                       | ¥ 19,948                             | ¥ 24,265 | \$ 202,209                               |
| Minority interests                                                                         | 887                                  | 2,023    | 16,858                                   |
| Total comprehensive income                                                                 | ¥ 20,835                             | ¥ 26,288 | \$ 219,067                               |

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.