Notes to Consolidated Financial Statements

West Japan Railway Company March 31, 2005

1. Basis of Financial Statements and Summary of Significant Accounting Policies

Basis of Financial Statements

The accompanying consolidated financial statements of West Japan Railway Company (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company and its consolidated subsidiaries are incorporated and operate. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥107=U.S.$1.00, the exchange rate prevailing on March 31, 2005. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the years ended March 31, 2004 and 2003 to the 2005 presentation. Such reclassification had no effect on consolidated net income or shareholders' equity.

As permitted, amounts of less than one million yen are omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or undisposed losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable. The difference, not significant in amount, between the cost of investments in subsidiaries and the equity in their net assets at the date of acquisition is amortized over a period of five years on a straight-line basis.

The balance sheet date of one consolidated subsidiary is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary.

(2) Cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(3) Investments in securities

Investments in marketable securities are stated at fair value, and net unrealized holding gain or loss on such securities is accounted for as a separate component of shareholders' equity. The cost of securities sold is determined primarily by the moving average method. Investments in non-marketable securities are stated at cost based on the moving average method.

(4) Derivative financial instruments

Derivative financial instruments are stated at fair value.

(5) Inventories

Inventories are stated at cost, which is determined primarily by the following methods:

Merchandise inventories:	the last purchase price method or the retail cost method;
Real estate for sale and contracts in process:	the individual identification method;
Rails, materials and supplies:	the moving average method.

(6) Property, plant and equipment

Property, plant and equipment is stated at cost (see Note 8). Depreciation is determined primarily by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures included in buildings and structures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs are to be charged to income.

(7) Leases

The Company and its consolidated subsidiaries lease certain equipment under noncancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(8) Long-term accrued rail usage charges

Up to the year ended March 31, 2000, the Company expensed the rail usage charges for the JR Tozai Line payable to Kansai Rapid Railway Co., Ltd. ("KRRCL") at a periodic payment amount scheduled to increase by 10% every three years. As an economic recovery in Japan is not foreseeable and the population of students along this line has recently been decreasing, the Company is unable to expect any increase in revenue from the line to offset the corresponding increase in expenses. Thus, effective April 1, 2000, the Company began expensing rail usage charges at an amount allocated evenly over the thirty-year period of the rental agreement.

The Company and KRRCL have reached an agreement under which they will determine the annual rail usage charges for years subsequent to April 1, 2004 based on a discussion to be held every three years and reflecting interest-rate fluctuation as well as other factors. KRRCL obtained the approval of the Minister of Land, Infrastructure and Transport for this agreement on February 25, 2004. As the Company's obligation to pay the rail usage charges has now been extinguished, the Company reversed long-term accrued rail usage charges of ¥52,797 million at March 31, 2004 and recorded this as "reversal of long-term accrued rail usage charges," a component of other income in the consolidated statement of income for the year ended March 31, 2004.

(9) Accrued retirement benefits

Accrued retirement benefits for employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The net retirement benefit obligation at transition of ¥321,242 million is amortized principally over a ten-year period.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method principally over a ten-year period, which is shorter than the average remaining years of service of the eligible employees.

Prior service cost is principally charged to income when incurred. Prior service cost of ¥38,916 million was incurred following an amendment to the employees' early retirement plans and the implementation of the re-employment plans. This was expensed primarily as "amortization of prior service cost" and was presented as a component of other expenses in the consolidated statement of income for the year ended March 31, 2004.

(10) Income taxes

Deferred income taxes are recognized by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

In accordance with a law on the amendment of local tax laws, and so forth, which went into effect on April 1, 2004, a corporation with capital in excess of ¥100 million is subject to business scale taxation on the basis of the total amount of value added, the size of its capital and its taxable income. Based on the new accounting standard for business scale taxation, the Company and certain of its consolidated subsidiaries have accounted for business scale taxation with respect to the amount of value added and capital as a component of operating expenses. Consequently, operating expenses for the year ended March 31, 2005 increased by ¥2,572 million and income before income taxes and minority interests for the year ended March 31, 2005 decreased by ¥2,572 million.

(11) Allowance for loss on guarantees

The allowance for loss on guarantees is provided for payments related to guaranteed obligations. The amount is estimated based on the financial condition of the guaranteed companies.

(12) Allowance for loss on business reorganization

The allowance for loss on business reorganization was provided for loss on the reorganization of the business of Tamba Kogen Kaihatsu Co., Ltd. ("TKKCL"), a consolidated subsidiary, at an estimate of the related amount to be borne by the Company.

At an extraordinary meeting of the shareholders held on April 26, 2004, the shareholders of TKKCL approved a resolution authorizing the transfer of its entire golf course management business to the Company and for the subsequent liquidation of TKKCL.

(13) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Derivatives such as forward foreign exchange contracts and interest-rate swaps are utilized to manage foreign currency and interest-rate risk. Forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding forward foreign exchange contract rates. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt.

2. Adoption of New Accounting Standard

Effective April 1, 2004, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets as early adoption of this standard was permitted commencing the fiscal year ending on or subsequent to March 31, 2004. The effect of the adoption of this standard was to decrease income before income taxes and minority interests by ¥4,429 million for the year ended March 31, 2005.

3. Cash and Cash Equivalents

The balances of cash reflected in the consolidated balance sheets at March 31, 2005, 2004 and 2003 are reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Cash	**¥62,901**	¥71,317	¥90,016	**$587**
Time deposits with an original maturity in excess of three months included in cash	**(660)**	(661)	(706)	**(6)**
Cash and cash equivalents	**¥62,241**	¥70,655	¥89,310	**$581**

4. Investments in Securities

The accounting standard for financial instruments requires that, except for investments in unconsolidated subsidiaries and affiliates, all other investments in securities be classified as follows: trading, held-to-maturity or other securities. The Company and its consolidated subsidiaries did not have any investments classified as trading or held-to-maturity securities at March 31, 2005, 2004 or 2003. The standard further requires that other securities be stated at fair value, with any unrealized holding gain or loss reported as a separate component of shareholders' equity, net of deferred income taxes.

Investments in marketable securities at March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	2005	**2005**	**2005**	2004	2004	2004
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥6,430**	**¥13,245**	**¥6,814**	¥ 5,537	¥15,059	¥9,522
Debt securities:						
Government bonds	**25**	**25**	**0**	4,019	4,022	3
Subtotal	**6,455**	**13,270**	**6,814**	9,556	19,082	9,525
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**109**	**78**	**(31)**	596	546	(49)
Debt securities:						
Government bonds	—	—	—	21	21	(0)
Subtotal	**109**	**78**	**(31)**	617	567	(49)
Total	**¥6,565**	**¥13,349**	**¥6,783**	¥10,174	¥19,649	¥9,475

	Millions of yen 2003 Acquisition costs	Millions of yen 2003 Carrying value	Millions of yen 2003 Unrealized gain (loss)	Millions of U.S. dollars 2005 Acquisition costs	Millions of U.S. dollars 2005 Carrying value	Millions of U.S. dollars 2005 Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 1,637	¥10,316	¥8,679	**$60**	**$123**	**$63**
Debt securities:						
Government bonds	4,013	4,017	4	**0**	**0**	**0**
Subtotal	5,650	14,334	8,684	**60**	**124**	**63**
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	7,163	5,858	(1,304)	**1**	**0**	**(0)**
Debt securities:						
Government bonds	19	19	(0)	**—**	**—**	**—**
Subtotal	7,183	5,878	(1,304)	**1**	**0**	**(0)**
Total	¥12,833	¥20,213	¥7,379	**$61**	**$124**	**$63**

Sales of investments in securities for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen 2005	Millions of yen 2004	Millions of yen 2003	Millions of U.S. dollars 2005
Sales	**¥26,436**	¥10,243	¥3,847	**$247**
Aggregate gain	**25,050**	7,609	1,852	**234**
Aggregate loss	**14**	96	574	**0**

At March 31, 2005, the redemption schedule for investments in securities by maturity date was as follows:

	Millions of yen 2005 Due in one year or less	Millions of yen 2005 Due after one year through five years	Millions of U.S. dollars 2005 Due in one year or less	Millions of U.S. dollars 2005 Due after one year through five years
Government bonds	**¥4,025**	**¥—**	**$37**	**$—**
Corporate bonds	**2**	**3**	**0**	**0**
	¥4,027	**¥ 3**	**$37**	**$ 0**

The carrying value of investments in non-marketable securities at March 31, 2005, 2004 and 2003 was as follows:

	Millions of yen 2005	Millions of yen 2004	Millions of yen 2003	Millions of U.S. dollars 2005
Unlisted equity securities	**¥3,414**	¥4,634	¥5,138	**$31**
Other	**4,005**	7	7	**37**
	¥7,419	¥4,642	¥5,145	**$69**

5. Financial Assets Received as Collateral

At March 31, 2005, the Company held government bonds received from a financial institution as collateral for short-term loans extended to this institution by the Company. These assets have been included in "prepaid expenses and other current assets," a component of current assets, in the consolidated balance sheet at March 31, 2005. The Company has the right to dispose of them freely. The fair value of these financial assets totaled ¥9,999 million ($93 million) at March 31, 2005.

6. Inventories

Inventories at March 31, 2005, 2004 and 2003 consisted of the following:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Real estate for sale	**¥ 16**	¥ 45	¥ 85	**$ 0**
Rails, materials, supplies, merchandise and contracts in process	**15,680**	16,196	13,903	**146**
	¥15,696	¥16,241	¥13,988	**$146**

7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2005, 2004 and 2003 consisted of the following:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Investments in:				
Unconsolidated subsidiaries	**¥ 5,237**	¥ 4,704	¥ 4,920	**$ 48**
Affiliates	**31,690**	31,216	29,588	**296**
	¥36,927	¥35,921	¥34,508	**$345**

8. Property, Plant and Equipment

Contributions for the construction of railway facilities granted by national and municipal governments and others are deducted directly from the acquisition costs of the related fixed assets as stipulated in the Corporation Tax Law of Japan. Compensation for the expropriation of properties received from national and municipal governments and others, in accordance with the Corporation Tax Law, are also deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

The contributions deducted from property, plant and equipment for the years ended March 31, 2005, 2004 and 2003 totaled ¥38,526 million ($360 million), ¥28,988 million and ¥29,593 million, respectively. The accumulated contributions deducted from property, plant and equipment at March 31, 2005, 2004 and 2003 amounted to ¥419,147 million ($3,917 million), ¥382,233 million and ¥356,267 million, respectively.

The compensation deducted from property, plant and equipment to replace the properties expropriated for the years ended March 31, 2005, 2004 and 2003 totaled ¥6,510 million ($60 million), ¥6,777 million and ¥6,189 million, respectively.

The Company planned to repair the elevated railroads of the Sanyo Shinkansen Line during the period from April 1, 2001 to March 31, 2004 based on the recommendations of the Investigation Committee on the Sanyo Shinkansen Concrete Structures. The Company had recorded an accrual for the projected costs of ¥9,650 million as of March 31, 2002 and charged this provision to income for the year then ended.

9. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their fixed assets relating to transportation, sales of goods and food services and other businesses, primarily at each business which manages the receipts and payments separately. They also group their fixed assets in the real estate business, fixed assets which they have decided to dispose of, and idle assets primarily at each asset. Consequently, the Company and its consolidated subsidiaries have written down the following 24 items to their recoverable value and have recorded the related loss on impairment of fixed assets of ¥4,429 million ($41 million) in the consolidated statement of income for the year ended March 31, 2005:

	Millions of yen	Millions of U.S. dollars
	2005	**2005**
Assets to be disposed of:		
Company houses held in Osaka City and others—17 items:		
Land	**¥1,513**	**$14**
Buildings and structures	**791**	**7**
Total	**¥2,305**	**$21**
Idle assets:		
Land held in Mihara City, Hiroshima Prefecture and others—5 items:		
Land	**¥1,824**	**$17**
Buildings and structures	**7**	**0**
Total	**¥1,832**	**$17**
Other assets:		
Land for rental held for rental purposes in Osaka City and others—2 items:		
Land	**¥ 282**	**$ 2**
Buildings and structures	**8**	**0**
Total	**¥ 291**	**$ 2**

The recoverable value of the assets to be disposed of and the idle assets presented in the above tables has been measured primarily at net realizable value and has been calculated based principally on the appraisal value published by the tax authorities. The recoverable value of other assets presented in the above table has been measured principally by value in use based on the respective estimated future cash flows discounted at 5% per annum.

10. Short-Term Loans and Long-Term Debt

Short-term loans represent loans on deeds due within one year. The annual interest rates applicable to such loans outstanding at March 31, 2005, 2004 and 2003 ranged from 0.15% to 1.375%, from 0.15% to 1.38% and from 0.22% to 1.38%, respectively.

Long-term debt at March 31, 2005, 2004 and 2003 is summarized as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Secured West Japan Railway bonds, payable in yen, at rates ranging from 1.53% to 3.45%, due from 2009 through 2019	**¥175,000**	¥175,000	¥200,000	**$1,635**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.28%, due from 2022 through 2024	**45,000**	35,000	15,000	**420**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.0% to 8.5%, due in installments from 2006 through 2021	**95,695**	106,538	117,381	**894**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.69% to 4.09%, due in installments from 2006 through 2012	**202,826**	220,648	235,409	**1,895**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 5.2%, due in installments from 2006 through 2019	**8,519**	9,223	9,927	**79**
Secured 1.89% loans from banks and insurance companies, payable in yen, due in installments through 2005	**—**	5	25	**—**
Other	**16,210**	16,210	11,710	**151**
	543,251	562,624	589,452	**5,077**
Less current portion	**(30,888)**	(59,273)	(55,927)	**(288)**
	¥512,362	¥503,351	¥533,524	**$4,788**

All the secured bonds issued by the Company are secured by statutory preferential rights over the entire property of the Company.

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 30,888	$ 288
2007	78,346	732
2008	49,389	461
2009	88,014	822
2010	52,765	493
2011 and thereafter	243,846	2,278
	¥543,251	$5,077

11. Pledged Assets

Assets pledged at March 31, 2005 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
	2005	**2005**
Bank deposits included in cash	**¥ 230**	**$ 2**
Investments in other securities	**323**	**3**
Land	**190**	**1**
Buildings and structures	**31,932**	**298**
	¥32,675	**$305**

The indebtedness secured by such collateral at March 31, 2005 was as follows:

	Millions of yen	Millions of U.S. dollars
	2005	**2005**
Short-term loans	**¥ 600**	**$ 5**
Current portion of long-term loans included in current portion of long-term debt	**704**	**6**
Long-term loans included in long-term debt	**7,815**	**73**
Other long-term liabilities	**2,221**	**20**
	¥11,340	**$105**

In addition, the entire property of the Company is subject to statutory preferential rights for the security of all secured bonds.

12. Long-Term Payables

Long-term payables at March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2006 through 2017	**¥338,360**	¥374,935	¥409,368	**$3,162**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2006 through 2052	**190,089**	190,455	190,798	**1,776**
Other	**9,967**	10,531	11,095	**93**
	538,417	575,921	611,262	**5,031**
Less current portion	**(38,623)**	(37,723)	(35,488)	**(360)**
	¥499,794	¥538,197	¥575,774	**$4,670**

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from the Shinkansen Holding Corporation ("SHC") for the total price of ¥974,111 million. The Company is currently liable to the Japan Railway Construction, Transport & Technology Agency ("JRTT") for this purchase. In accordance with the terms of the purchase agreement, the interest rate applied to the variable interest portion of the payables for each fiscal year will be adjusted every year to a weighted-average interest rate to be determined based on the interest rate of certain of JRTT's long-term debt (as defined in the purchase agreement) assumed from SHC and outstanding as of April 1 of each respective year. The variable interest rates for the years ended March 31, 2005, 2004 and 2003 were 4.50%, 4.57% and 4.68%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 38,623	$ 360
2007	36,259	338
2008	22,709	212
2009	23,703	221
2010	24,741	231
2011 and thereafter	392,381	3,667
	¥538,417	$5,031

13. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,170 million ($57 million), ¥6,026 million and ¥6,089 million for the years ended March 31, 2005, 2004 and 2003, respectively.

14. Income Taxes

The aggregate statutory tax rates applicable to the Company and its consolidated subsidiaries were 40.69% for the year ended March 31, 2005 and 42.24% for the years ended March 31, 2004 and 2003.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003 differ from the statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	42.24%	42.24%
Permanent non-deductible expenses	0.52	0.54
Decrease in deferred tax assets at March 31, 2003 resulting from the change in statutory tax rate	—	2.49
Per capita portion of inhabitants' taxes	0.74	(0.80)
Special corporation tax deduction	(2.23)	—
Loss on business reorganization of a subsidiary	4.57	—
Other	(0.99)	—
Effective tax rate	44.85%	44.47%

The presentation of corresponding information for the year ended March 31, 2005 has been omitted because the difference between the statutory tax rate and the effective tax rate was less than five percent of the statutory tax rate.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	2005
Deferred tax assets:				
Accrued bonuses included in accrued expenses	**¥ 14,612**	¥ 15,143	¥13,534	**$136**
Loss on business reorganization of a subsidiary	**—**	4,740	—	**—**
Accrued enterprise tax included in accrued income taxes	**2,171**	2,903	2,261	**20**
Accrued retirement benefits	**71,004**	64,782	38,548	**663**
Adjustments to the JR Tozai Line rail usage charges for prior years	**—**	—	19,120	**—**
Unrealized gain on property, plant and equipment	**5,853**	5,230	5,142	**54**
Tax loss carryforward	**226**	944	3,565	**2**
Other	**10,039**	8,096	7,528	**93**
Gross deferred tax assets	**103,908**	101,840	89,700	**971**
Valuation allowance	**(625)**	(771)	(1,118)	**(5)**
Total deferred tax assets	**103,282**	101,069	88,582	**965**
Deferred tax liabilities:				
Unrealized holding gain on securities	**(2,762)**	(3,865)	(3,008)	**(25)**
Contributions for construction deducted from acquisition costs of property, plant and equipment	**(6,944)**	(6,091)	(3,225)	**(64)**
Gain on valuation of assets of consolidated subsidiaries	**(1,443)**	(1,470)	(1,244)	**(13)**
Other	**(115)**	(153)	(916)	**(1)**
Total deferred tax liabilities	**(11,265)**	(11,580)	(8,395)	**(105)**
Deferred tax assets, net	**¥ 92,017**	¥ 89,488	¥80,187	**$859**

In accordance with a law on amendments to local tax laws, etc., announced on March 31, 2003, the Company and its consolidated subsidiaries applied a statutory tax rate of 40.84% to the calculation of deferred tax assets and liabilities at March 31, 2003, which are expected to be reversed on April 1, 2004 and thereafter. The effect of this change in the applicable statutory tax rate was to decrease deferred tax assets, net of deferred tax liabilities, at March 31, 2003 by ¥1,820 million and to increase income taxes–deferred for the year ended March 31, 2003 and net unrealized holding gain on securities at March 31, 2003 by ¥1,935 million and ¥114 million, respectively.

15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005, 2004 and 2003, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases under which the Company and its consolidated subsidiaries are lessees and which are currently accounted for as operating leases:

	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	2005	**2005**	**2005**	2004	2004	2004
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥ 361**	**¥ 104**	**¥ 257**	¥ 164	¥ 83	¥ 80
Tools, furniture and fixtures	**4,657**	**3,627**	**1,029**	4,751	3,128	1,622
Software included in other assets	**745**	**410**	**334**	497	269	228
	¥5,764	**¥4,142**	**¥1,621**	¥5,412	¥3,481	¥1,931

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars
	2003	2003	2003	**2005**	**2005**	**2005**
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥ 146	¥ 59	¥ 87	**$ 3**	**$ 0**	**$ 2**
Tools, furniture and fixtures	5,617	3,257	2,360	**43**	**33**	**9**
Software included in other assets	503	186	317	**6**	**3**	**3**
	¥6,268	¥3,503	¥2,764	**$53**	**$38**	**$15**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2005, 2004 and 2003 totaled ¥1,013 million ($9 million), ¥978 million and ¥240 million, respectively. These amounts are equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 681	$ 6
2007 and thereafter	939	8
	¥1,621	$15

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2005, 2004 and 2003 for finance lease transactions in which a consolidated subsidiary of the Company is the lessor and which are currently accounted for as operating leases:

	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	2005	**2005**	**2005**	2004	2004	2004
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥2,388**	**¥ 776**	**¥1,612**	¥1,822	¥ 517	¥1,305
Tools, furniture and fixtures	**2,913**	**1,432**	**1,481**	2,956	1,557	1,398
	¥5,301	**¥2,208**	**¥3,093**	¥4,779	¥2,075	¥2,704

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars
	2003	2003	2003	**2005**	**2005**	**2005**
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥1,411	¥ 298	¥1,112	**$22**	**$ 7**	**$15**
Tools, furniture and fixtures	2,963	1,447	1,516	**27**	**13**	**13**
	¥4,374	¥1,745	¥2,628	**$49**	**$20**	**$28**

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2005, 2004 and 2003 were ¥866 million ($8 million), ¥875 million and ¥770 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2005, 2004 and 2003, which was computed by the straight-line method over the respective lease terms, amounted to ¥762 million ($7 million), ¥776 million and ¥691 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2006	¥ 932	$ 8
2007 and thereafter	2,667	24
	¥3,599	$33

16. Retirement Benefit Plans

The Company and its consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans covering substantially all employees who are entitled to lump-sum payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which the termination of employment occurs. Certain consolidated subsidiaries have tax-qualified funded pension plans in addition to unfunded lump-sum severance and retirement benefit plans.

The funded and accrued status of the retirement benefit plans of the Company and its consolidated subsidiaries and the amounts recognized in the consolidated balance sheets at March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Retirement benefit obligation	**¥(408,214)**	¥(451,651)	¥(448,995)	**$(3,815)**
Plan assets at fair value	**9,916**	9,585	8,780	**92**
Unfunded retirement benefit obligation	**(398,298)**	(442,066)	(440,214)	**(3,722)**
Unrecognized net retirement benefit obligation at transition	**162,200**	193,719	225,188	**1,515**
Unrecognized actuarial loss	**36,157**	39,169	33,241	**337**
Unrecognized prior service cost	**245**	273	38	**2**
Net retirement benefit obligation	**(199,694)**	(208,903)	(181,745)	**(1,866)**
Prepaid pension cost	**84**	30	17	**0**
Accrued retirement benefits	**¥(199,779)**	¥(208,934)	¥(181,763)	**$(1,867)**

The components of retirement benefit expenses for the years ended March 31, 2005, 2004 and 2003 are outlined as follows:

	Millions of yen	Millions of yen	Millions of yen	Millions of U.S. dollars
	2005	2004	2003	**2005**
Service cost	**¥16,713**	¥ 17,888	¥17,199	**$156**
Interest cost	**9,020**	9,741	9,238	**84**
Expected return on plan assets	**(221)**	(198)	(55)	**(2)**
Amortization of net retirement benefit obligation at transition	**31,518**	31,468	30,651	**294**
Amortization of actuarial loss	**4,666**	3,905	3,251	**43**
Amortization of prior service cost	**743**	38,680	163	**6**
	¥62,440	¥101,486	¥60,448	**$583**

The assumptions used in accounting for the above retirement benefit plans were as follows:

	2005	2004	2003
Discount rates	Principally 2.0%	Principally 2.0%	Principally 2.0%
Expected rates of return on plan assets	Principally 2.5%	Principally 2.5%	Principally 3.5%

17. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code further stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity. The Company's legal reserve amounted to ¥11,327 million ($105 million) at March 31, 2005, 2004 and 2003.

18. Contingent Liabilities

At March 31, 2005, the Company was contingently liable for an in-substance defeasance on bonds in the amount of ¥25,000 million ($233 million).

In addition, at March 31, 2005, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥6,377 million ($59 million).

19. Amounts per Share

Amounts per share at March 31, 2005, 2004 and 2003 and for the years then ended were as follows:

	Yen	Yen	Yen	U.S. dollars
	2005	2004	2003	**2005**
Net assets	**¥262,232.61**	¥239,876.24	¥220,284.84	**$2,450**
Net income	**29,462.96**	23,423.19	20,740.12	**275**
Cash dividends	**6,000.00**	6,500.00	5,000.00	**56**

Diluted net income per share has not been presented for the years ended March 31, 2005, 2004 and 2003 since neither the Company nor any of its consolidated subsidiaries had any potentially dilutive stock at March 31, 2005, 2004 and 2003.

Net assets per share have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date. Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

20. Derivatives

The Company's consolidated subsidiaries enter into various transactions involving derivative financial instruments in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. These transactions include interest-rate swaps and forward foreign exchange contracts; however, they do not include speculative transactions which entail high levels of risk.

The counterparties to these derivatives positions are limited to financial institutions with high credit ratings.

The Company's consolidated subsidiaries enter into these derivatives transactions in the normal course of business relating to the financing and procurement of goods and to the tour business. They enter into such transactions with the counterparties based on the resolutions or the approvals required under the internal bylaws of each company. The accounting departments or other management departments manage the related risk.

Disclosure of fair value information on derivatives has been omitted because all open positions qualified for hedge accounting.

21. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in railway, ferry, bus and other transportation services. They also engage in other activities such as sales of goods and food services and in the real estate business.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2004 and 2003 is outlined as follows:

2005	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	Transportation	Sales of Goods and Food Services	Real Estate Business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	**¥ 829,450**	**¥196,684**	**¥ 58,878**	**¥135,834**	**¥1,220,847**	**¥ —**	**¥1,220,847**
Intergroup operating revenues and transfers	**16,552**	**36,178**	**12,013**	**123,764**	**188,507**	**(188,507)**	**—**
Total sales	**846,002**	**232,862**	**70,891**	**259,598**	**1,409,354**	**(188,507)**	**1,220,847**
Operating expenses	**746,636**	**227,625**	**51,969**	**249,413**	**1,275,644**	**(187,897)**	**1,087,747**
Operating income	**¥ 99,365**	**¥ 5,237**	**¥ 18,922**	**¥ 10,185**	**¥ 133,710**	**¥ (609)**	**¥ 133,100**
II. Assets, depreciation and capital expenditures:							
Total assets	**¥1,788,767**	**¥ 66,699**	**¥286,064**	**¥222,013**	**¥2,363,546**	**¥ 776**	**¥2,364,322**
Depreciation and amortization	**93,803**	**2,132**	**10,702**	**7,043**	**113,682**	**—**	**113,682**
Capital expenditures	**126,482**	**3,183**	**7,990**	**10,330**	**147,986**	**—**	**147,986**

2004	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	Transportation	Sales of Goods and Food Services	Real Estate Business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	¥ 827,639	¥196,856	¥ 57,970	¥133,269	¥1,215,735	¥ —	¥1,215,735
Intergroup operating revenues and transfers	16,618	32,959	12,016	123,964	185,559	(185,559)	—
Total sales	844,258	229,815	69,987	257,233	1,401,294	(185,559)	1,215,735
Operating expenses	749,841	224,147	51,967	247,580	1,273,537	(184,733)	1,088,804
Operating income	¥ 94,417	¥ 5,667	¥ 18,019	¥ 9,653	¥ 127,757	¥ (826)	¥ 126,930
II. Assets, depreciation and capital expenditures:							
Total assets	¥1,818,223	¥ 67,621	¥288,274	¥237,882	¥2,412,002	¥ (1,643)	¥2,410,358
Depreciation and amortization	94,524	2,209	11,451	7,174	115,361	—	115,361
Capital expenditures	125,081	2,332	7,425	13,058	147,897	—	147,897

2003	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
	Transportation	Sales of Goods and Food Services	Real Estate Business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	¥ 831,521	¥193,083	¥ 57,265	¥ 83,700	¥1,165,571	¥ —	¥1,165,571
Intergroup operating revenues and transfers	15,638	34,491	11,004	107,299	168,434	(168,434)	—
Total sales	847,160	227,574	68,270	191,000	1,334,006	(168,434)	1,165,571
Operating expenses	753,895	223,239	52,149	181,516	1,210,801	(167,865)	1,042,935
Operating income	¥ 93,265	¥ 4,335	¥ 16,120	¥ 9,483	¥ 123,205	¥ (569)	¥ 122,636
II. Assets, depreciation and capital expenditures:							
Total assets	¥1,820,808	¥ 67,267	¥292,546	¥260,662	¥2,441,285	¥ (8,571)	¥2,432,713
Depreciation and amortization	93,237	2,036	12,031	5,734	113,040	—	113,040
Capital expenditures	116,554	4,059	7,564	8,874	137,052	—	137,052

2005	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars	Millions of U.S. dollars
	Transportation	Sales of Goods and Food Services	Real Estate Business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	$ 7,751	$1,838	$ 550	$1,269	$11,409	$ —	$11,409
Intergroup operating revenues and transfers	154	338	112	1,156	1,761	(1,761)	—
Total sales	7,906	2,176	662	2,426	13,171	(1,761)	11,409
Operating expenses	6,977	2,127	485	2,330	11,921	(1,756)	10,165
Operating income	$ 928	$ 48	$ 176	$ 95	$ 1,249	$ (5)	$ 1,243
II. Assets, depreciation and capital expenditures:							
Total assets	$16,717	$ 623	$2,673	$2,074	$22,089	$ 7	$22,096
Depreciation and amortization	876	19	100	65	1,062	—	1,062
Capital expenditures	1,182	29	74	96	1,383	—	1,383

As described in Note 2, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2005. The effect of this adoption was to decrease assets in the “Transportation,” “Sales of goods and food services,” “Real estate business” and “Other” business segments at March 31, 2005 by ¥3,607 million ($33 million), ¥22 million ($0 million), ¥507 million ($4 million) and ¥292 million ($2 million), respectively.

22. Subsequent Events

(1) On April 25, 2005, a rapid train derailed between Tsukaguchi Station and Amagasaki Station on the Fukuchiyama Line, resulting in multiple fatalities and injuries. The Company is doing its best to fulfil all its responsibilities to the bereaved families, the injured passengers and the residents of the condominium complex struck by the train. The Company anticipates that the related expenses will be considerable; however, it is unable at this time to estimate their effect on future operating results on a reasonable basis.

(2) The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2005, was approved at a meeting of the shareholders of the Company held on June 23, 2005:

	Millions of yen	Millions of U.S. dollars
	2005	2005
Cash dividends (¥3,500 = $32 per share)	¥7,000	$65