Report of Independent Auditors

The Board of Directors
West Japan Railway Company

We have audited the accompanying non-consolidated balance sheets of West Japan Railway Company as of March 31, 2007, 2006 and 2005, and the related non-consolidated statements of income and changes in net assets for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Japan Railway Company at March 31, 2007, 2006 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2(1) to the non-consolidated financial statements, the Company adopted an accounting standard for the impairment of fixed assets effective the year ended March 31, 2005.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young Shin Nihon

Osaka, Japan
June 22, 2007

West Japan Railway Company

Non-Consolidated Balance Sheets

As of March 31, 2007, 2006 and 2005

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	2007
Assets				
Current assets:				
Cash	¥ 39,536	¥ 44,700	¥ 36,771	$ 335
Accounts receivable	55,010	42,409	35,892	466
Less allowance for doubtful accounts	(161)	(64)	(183)	(1)
Inventories *(Note 4)*	6,217	5,409	4,621	52
Deferred income taxes *(Note 11)*	13,907	14,521	15,073	117
Prepaid expenses and other current assets *(Note 3)*	29,259	24,440	35,795	247
Total current assets	143,769	131,417	127,971	1,218
Investments and advances:				
Subsidiaries and affiliates *(Note 5)*	155,131	137,066	134,983	1,314
Other securities	21,950	24,672	15,155	186
	177,082	161,738	150,138	1,500
Property, plant and equipment *(Notes 6 and 7)*:				
Railway *(Note 9)*	3,809,475	3,738,478	3,694,678	32,283
Ferry	1,228	1,375	893	10
Other operations	214,720	209,647	211,919	1,819
Construction in progress	61,251	57,817	67,825	519
	4,086,675	4,007,318	3,975,316	34,632
Less accumulated depreciation	(2,360,472)	(2,298,642)	(2,237,987)	(20,004)
Property, plant and equipment, net	1,726,202	1,708,675	1,737,329	14,628
Deferred income taxes *(Note 11)*	79,845	75,609	61,608	676
Other assets	24,975	24,725	21,029	211
Total assets	¥ 2,151,875	¥ 2,102,166	¥ 2,098,076	$ 18,236

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	2007
Liabilities and net assets				
Current liabilities:				
Short-term loans *(Notes 5 and 8)*	¥ 117,139	¥ 128,567	¥ 108,978	$ 992
Current portion of long-term debt *(Note 8)*	34,876	41,471	21,476	295
Current portion of long-term payables *(Notes 5 and 9)*	36,850	55,739	44,465	312
Accounts payable *(Note 5)*	147,882	122,473	105,366	1,253
Prepaid railway fares received	30,463	30,455	30,381	258
Deposits and advances received	74,159	63,949	97,624	628
Accrued expenses	47,112	47,999	49,961	399
Accrued income taxes *(Note 11)*	13,254	21,253	14,591	112
Other current liabilities	3,893	1,763	2,650	32
Total current liabilities	505,630	513,672	475,495	4,285
Long-term debt *(Notes 8 and 16(1))*	449,679	397,474	426,645	3,810
Long-term payables *(Notes 5 and 9)*	429,665	466,469	521,627	3,641
Accrued retirement benefits	201,188	182,969	181,718	1,704
Allowance for antiseismic reinforcement measures *(Note 1(7))*	9,931	14,400	–	84
Allowance for environmental safety measures *(Note 1(8))*	7,426	7,543	–	62
Other long-term liabilities	15,032	17,407	18,275	127
Contingent liabilities *(Note 14)*				
Net assets:				
Shareholders' equity *(Note 13)*:				
Common stock:				
Authorized – 8,000,000 shares				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	847
Capital surplus	55,000	55,000	55,000	466
Retained earnings *(Note 16(2))*	370,316	337,633	315,492	3,138
Total shareholders' equity	525,316	492,633	470,492	4,451
Valuation and translation adjustments:				
Net unrealized holding gain on securities	8,003	9,596	3,822	67
Total valuation and translation adjustments	8,003	9,596	3,822	67
Total net assets	533,320	502,229	474,315	4,519
Total liabilities and net assets	¥2,151,875	¥2,102,166	¥2,098,076	$ 18,236

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company

Non-Consolidated Statements of Income

Years ended March 31, 2007, 2006 and 2005

	Millions of yen			*Millions of U.S. dollars (Note 1)*
	2007	2006	2005	2007
Operating revenues:				
Transportation	¥765,893	¥756,506	¥750,949	$ 6,490
Transportation incidentals	22,503	22,561	22,864	190
Other operations	18,229	17,720	17,781	154
Miscellaneous	59,183	54,492	54,882	501
	865,810	851,280	846,477	7,337
Operating expenses *(Notes 1(6) and 10)*:				
Personnel	272,509	276,194	286,863	2,309
Energy	34,376	34,861	36,943	291
Maintenance	148,995	140,793	127,198	1,262
Depreciation	93,533	92,568	94,599	792
Rent	24,684	24,722	24,624	209
Miscellaneous taxes	28,149	28,735	29,760	238
Other	154,594	144,426	136,430	1,310
	756,844	742,302	736,420	6,413
Operating income	108,966	108,978	110,057	923
Other income (expenses):				
Interest and dividend income	782	586	543	6
Interest expense	(36,208)	(37,850)	(40,474)	(306)
Gain on sales of investments in securities	–	74	20,934	–
Gain on sales of property, plant and equipment	9,578	8,874	5,856	81
Loss on disposal of property, plant and equipment	(3,441)	(5,583)	(11,282)	(29)
Amortization of prior service cost *(Note 1(5))*	(2,142)	4,038	(715)	(18)
Loss on impairment of fixed assets *(Notes 2(1) and 7)*	(242)	–	(3,901)	(2)
Provision of allowance for antiseismic reinforcement measures *(Note 1(7))*	–	(14,400)	–	–
Provision of allowance for environmental safety measures *(Note 1(8))*	–	(7,543)	–	–
Other, net *(Note 14)*	(1,496)	(116)	1,111	(12)
	(33,171)	(51,920)	(27,927)	(281)
Income before income taxes	75,795	57,057	82,130	642
Income taxes *(Note 11)*:				
Current	33,640	39,327	34,877	285
Deferred	(2,528)	(17,410)	(752)	(21)
	31,111	21,917	34,124	263
Net income	¥ 44,683	¥ 35,140	¥ 48,005	$ 378

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company

Non-Consolidated Statements of Changes in Net Assets

Years ended March 31, 2007, 2006 and 2005

	Millions of yen						
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity	Net unrealized holding gain on securities	Total valuation and translation adjustments	Total net assets
Balance at March 31, 2004	¥ 100,000	¥ 55,000	¥ 280,588	¥ 435,588	¥ 3,792	¥ 3,792	¥ 439,381
Net income for the year	–	–	48,005	48,005	–	–	48,005
Cash dividends	–	–	(13,000)	(13,000)	–	–	(13,000)
Bonuses to directors and corporate auditors	–	–	(101)	(101)	–	–	(101)
Net changes in items other than shareholders' equity	–	–	–	–	29	29	29
Balance at March 31, 2005	¥ 100,000	¥ 55,000	¥ 315,492	¥ 470,492	¥ 3,822	¥ 3,822	¥ 474,315
Net income for the year	–	–	35,140	35,140	–	–	35,140
Cash dividends	–	–	(13,000)	(13,000)	–	–	(13,000)
Net changes in items other than shareholders' equity	–	–	–	–	5,774	5,774	5,774
Balance at March 31, 2006	¥ 100,000	¥ 55,000	¥ 337,633	¥ 492,633	¥ 9,596	¥ 9,596	¥ 502,229
Net income for the year	–	–	44,683	44,683	–	–	44,683
Cash dividends	–	–	(12,000)	(12,000)	–	–	(12,000)
Net changes in items other than shareholders' equity	–	–	–	–	(1,592)	(1,592)	(1,592)
Balance at March 31, 2007	¥ 100,000	¥ 55,000	¥ 370,316	¥ 525,316	¥ 8,003	¥ 8,003	¥ 533,320

	Millions of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity	Net unrealized holding gain on securities	Total valuation and translation adjustments	Total net assets
Balance at March 31, 2006	$ 847	$ 466	$ 2,861	$ 4,174	$ 81	$ 81	$ 4,256
Net income for the year	–	–	378	378	–	–	378
Cash dividends	–	–	(101)	(101)	–	–	(101)
Net changes in items other than shareholders' equity	–	–	–	–	(13)	(13)	(13)
Balance at March 31, 2007	$ 847	$ 466	$ 3,138	$ 4,451	$ 67	$ 67	$ 4,519

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements

March 31, 2007

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

Basis of Presentation of Financial Statements

The accompanying non-consolidated financial statements of West Japan Railway Company (the "Company") 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 non-consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the non-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 non-consolidated financial statements relate to the Company only, with investments in subsidiaries and affiliates being stated at cost.

The accompanying non-consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. 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 ¥118 = U.S.$1.00, the exchange rate prevailing on March 31, 2007. 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.

As permitted, amounts of less than one million yen are omitted. As a result, the totals shown in the accompanying non-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) 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 net assets. Cost of securities sold is determined by the moving average method. Investments in non-marketable securities are stated at cost based on the moving average method.

1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

(2) Inventories

Real estate for sale is stated at cost determined by the individual identification method. Rails, materials and supplies are stated at cost determined by the moving average method.

(3) Property, plant and equipment

Property, plant and equipment is stated at cost (see Note 6). Depreciation is determined by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

(4) Leases

The Company leases 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.

(5) Accrued retirement benefits

The Company has a lump-sum severance and retirement benefit plan covering 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 termination of employment occurs.

Accrued retirement benefits for employees are provided at the retirement benefit obligation, as adjusted for the 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 ¥301,642 million is being amortized 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 over a ten-year period, which is shorter than the average remaining years of service of the eligible employees.

1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

(5) Accrued retirement benefits (continued)

Prior service cost is charged to income when incurred. This is expensed as "Amortization of prior service cost" in the non-consolidated statements of income for the years ended March 31, 2007, 2006 and 2005.

(6) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this 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 accounted for business scale taxation with respect to the amount of value added and the size of capital as a component of operating expenses. Consequently, operating expenses for the year ended March 31, 2005 increased by ¥2,005 million and income before income taxes for the year then ended decreased by the same amount.

(7) Allowance for antiseismic reinforcement measures

At March 31, 2006, to meet certain expenditures including the removal and restoration costs relating to quake-proof reinforcement work on the columns of the elevated railroads of the Shinkansen Line, the Company provided an allowance for such expenses at a reasonably estimated amount.

The quake-proof reinforcement project is scheduled to be completed no later than the year ending March 31, 2009, considering the columns of the elevated railroads of the Joetsu Shinkansen Line damaged by the Niigata Chuetsu Earthquake on October 23, 2004. No estimate of other related expenses can be provided as these cannot be reasonably estimated at the present time.

1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

(8) Allowance for environmental safety measures

To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company, an allowance at an amount reasonably estimated has been provided at March 31, 2006. The estimate was calculated based on the unit costs publicized by Japan Environment Safety Corporation. Other expenses related to the disposal which cannot be reasonably estimated at the present time have not been provided for.

2. Adoption of New Accounting Standards

(1) Loss on impairment of fixed assets

Effective the year ended March 31, 2005, the Company adopted an accounting standard for the impairment of fixed assets as early adoption of this standard was permitted commencing the fiscal year ended or subsequent to March 31, 2004. The effect of the adoption of this standard was to decrease income before income taxes by ¥3,901 million for the year ended March 31, 2005 from the amount which would have been recorded under the previous method.

(2) Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company has adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8 issued on December 9, 2005).

Total shareholders’ equity prior to the adoption of this accounting standard amounted to ¥533,320 million ($4,519 million) at March 31, 2007.

2. Adoption of New Accounting Standards (continued)

(3) Financial instruments

Effective the year ended March 31, 2007, the Company has adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 revised on August 11, 2006) and "Practical Guidance on Accounting for Financial Instruments" (Report No. 14 revised by the Accounting Standards Committee of the Japanese Institute of Certified Public Accountants on October 20, 2006).

As a result of the adoption of these accounting standard and practical guidance, bond discount receivables of ¥18 million ($0 million), which arose from the bond issuances at July 28, 2006 and February 19, 2007, were deducted from the respective nominal amounts.

3. 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 were included in "prepaid expenses and other current assets," a component of current assets in the non-consolidated balance sheet at March 31, 2005. The Company had the right to dispose of them without any restrictions. The fair value of these financial assets totaled ¥9,999 million at March 31, 2005.

4. Inventories

Inventories at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Real estate for sale	¥ –	¥ –	¥ 16	$ –
Rails, materials and supplies	6,217	5,409	4,604	52
	¥6,217	¥5,409	¥4,621	$ 52

5. Balances with Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Investments in:				
Subsidiaries	¥ 97,902	¥ 97,839	¥ 97,708	$ 829
Affiliates	25,085	24,989	24,761	212
Advances to subsidiaries	32,143	14,237	12,513	272
	¥155,131	¥137,066	¥134,983	$1,314

Amounts due to subsidiaries and affiliates at March 31, 2007, 2006 and 2005 are presented in the accompanying non-consolidated balance sheets as follows:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Short-term loans	¥116,234	¥127,688	¥108,978	$ 985
Current portion of long-term payables	288	19,569	5,842	2
Accounts payable	102,317	86,722	77,391	867
Long-term payables	1,976	2,264	21,833	16
	¥220,815	¥236,243	¥214,045	$1,871

6. Property, Plant and Equipment

Property, plant and equipment at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Land	¥ 641,828	¥ 638,287	¥ 645,608	$ 5,439
Buildings	353,760	350,474	349,803	2,997
Railway fixtures	1,971,445	1,939,807	1,920,074	16,707
Rolling stock and other vehicles	774,786	754,767	734,741	6,565
Ships	992	1,152	672	8
Machinery and equipment	233,416	218,926	212,840	1,978
Furniture and fixtures	49,195	46,083	43,750	416
Construction in progress	61,251	57,817	67,825	519
	4,086,675	4,007,318	3,975,316	34,632
Less accumulated depreciation	(2,360,472)	(2,298,642)	(2,237,987)	(20,004)
Property, plant and equipment, net	¥ 1,726,202	¥ 1,708,675	¥ 1,737,329	$ 14,628

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, is 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, 2007, 2006 and 2005 totaled ¥31,076 million ($263 million), ¥58,328 million and ¥38,526 million, respectively. The accumulated contributions deducted from property, plant and equipment at March 31, 2007, 2006 and 2005 were ¥501,302 million ($4,248 million), ¥473,299 million and ¥419,147 million, respectively.

The compensation deducted from property, plant and equipment to replace the properties expropriated for the years ended March 31, 2007, 2006 and 2005 totaled ¥2,503 million ($21 million), ¥4,014 million and ¥6,363 million, respectively.

7. Loss on Impairment of Fixed Assets

The Company groups its fixed assets relating to railways, vessels, sales of goods and food services and other businesses at each business which manages the receipts and payments separately. It also groups its fixed assets in the real estate business, fixed assets which it has determined to dispose of, and idle assets at each asset. Consequently, for the years ended March 31, 2007 and 2005, the Company wrote down the following 1 fixed asset and 19 fixed assets, respectively, to their respective recoverable value and recorded the related loss on impairment of fixed assets totaling ¥242 million ($2 million) and ¥3,901 million, respectively, in the non-consolidated statements of income for the years then ended:

	Millions of yen		*Millions of U.S. dollars*
	2007	2005	2007
Assets to be disposed of:			
Company houses held in Osaka City and other – 16 items:			
Land	¥ –	¥ 1,513	$ –
Buildings and structures	–	580	–
Land held in Hiroshima City – 1 item	242	–	2
Idle assets:			
Land held in Mihara City, Hiroshima Prefecture and other – 3 items:			
Land	–	1,806	–
Total	¥ 242	¥ 3,901	$ 2

The recoverable value of the assets to be disposed of and the idle assets presented in the above table was measured at net realizable value and was calculated based principally on the appraisal value published by the tax authorities.

8. 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, 2007, 2006 and 2005 ranged from 0.15% to 0.99%, from 0.15% to 0.28%, and from 0.15% to 0.31%, respectively.

Long-term debt at March 31, 2007, 2006 and 2005 is summarized as follows:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
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	¥ 175,000	$ 1,483
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.49%, due from 2022 through 2027	74,981	45,000	45,000	635
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.4% to 8.5%, due in installments from 2008 through 2018	55,559	64,535	73,511	470
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.77% to 2.19%, due from 2008 through 2012	163,200	138,200	138,400	1,383
Other	15,815	16,210	16,210	134
	484,555	438,945	448,121	4,106
Less current portion	(34,876)	(41,471)	(21,476)	(295)
	¥ 449,679	¥ 397,474	¥ 426,645	$ 3,810

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, 2007 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2008	¥ 34,876	$ 295
2009	85,116	721
2010	60,170	509
2011	28,462	241
2012	42,360	358
2013 and thereafter	233,571	1,979
	¥ 484,555	$ 4,106

9. Long-Term Payables

Long-term payables at March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2008 through 2017	¥265,791	¥300,899	¥338,360	$2,252
Fixed interest portion at 6.35% and 6.55%, due in installments from 2008 through 2052	189,282	189,698	190,089	1,604
Other	11,440	31,611	37,642	96
	466,515	522,209	566,092	3,953
Less current portion	(36,850)	(55,739)	(44,465)	(312)
	¥429,665	¥466,469	¥521,627	$3,641

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, 2007, 2006 and 2005 were 4.33%, 4.37% and 4.50%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2008	¥ 36,850	$ 312
2009	34,843	295
2010	33,727	285
2011	30,263	256
2012	39,381	333
2013 and thereafter	291,449	2,469
	¥ 466,515	$ 3,953

10. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,231 million ($52 million), ¥6,532 million and 6,130 million for the years ended March 31, 2007, 2006 and 2005, respectively.

11. Income Taxes

The aggregate statutory tax rate applicable to the Company was 40.69% for the years ended March 31, 2007, 2006 and 2005.

The effective tax rate reflected in the accompanying non-consolidated statement of income for the year ended March 31, 2006 differs from the statutory tax rate for the following reasons:

	2006
Statutory tax rate	40.69 %
Permanent non-deductible expenses	0.16
Per capita portion of inhabitants' taxes	0.58
Special corporation tax deduction	(2.17)
Other	(0.85)
Effective tax rate	38.41 %

Presentation of the corresponding information for the years ended March 31, 2007 and 2005 has been omitted because the differences between the statutory tax rate and the effective tax rates were less than five percent of the statutory tax rate.

11. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities at March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			*Millions of U.S. dollars*
	2007	2006	2005	2007
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥10,784	¥10,981	¥11,779	$ 91
Accrued social insurance premiums	1,384	1,413	1,517	11
Accrued enterprise tax included in accrued income taxes	1,363	2,047	1,488	11
Accrued retirement benefits	81,863	74,450	64,108	693
Allowance for antiseismic reinforcement measures	4,041	5,859	–	34
Allowance for environmental safety measures	3,021	3,069	–	25
Other	12,473	7,247	6,571	105
Valuation allowance	(5,099)	–	–	(43)
Total deferred tax assets	109,833	105,068	85,466	930
Deferred tax liabilities:				
Unrealized holding gain on securities	(5,491)	(6,583)	(2,622)	(46)
Contributions for construction deducted from acquisition costs of property, plant and equipment	(10,590)	(8,353)	(6,162)	(89)
Total deferred tax liabilities	(16,081)	(14,937)	(8,784)	(136)
Deferred tax assets, net	¥93,752	¥90,130	¥76,681	$ 794

12. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007, 2006 and 2005, which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2007			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property for:						
Railway operations	¥1,879	¥ 1,254	¥ 625	¥1,815	¥ 929	¥ 886
Other operations	189	171	18	1,230	997	232
	¥2,069	¥ 1,426	¥ 643	¥3,046	¥ 1,928	¥ 1,118

	Millions of yen		
	2005		
	Acquisition costs	Accumulated depreciation	Net book value
Leased property for:			
Railway operations	¥1,820	¥ 674	¥1,145
Other operations	1,228	686	541
	¥3,048	¥ 1,361	¥1,686

	Millions of U.S. dollars		
	2007		
	Acquisition costs	Accumulated depreciation	Net book value
Leased property for:			
Railway operations	$15	$ 10	$5
Other operations	1	1	0
	$17	$ 12	$5

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2007, 2006 and 2005 totaled ¥680 million ($5 million), ¥747 million and ¥750 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 assuming a nil residual value.

12. Leases (continued)

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2008	¥ 323	$2
2009 and thereafter	320	2
	¥ 643	$5

13. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying non-consolidated balance sheets and non-consolidated statements of changes in net assets. The Company's legal reserve amounted to ¥11,327 million ($95 million) at March 31, 2007, 2006 and 2005.

14. Contingent Liabilities

At March 31, 2007, the Company was contingently liable for guarantees of loans to subsidiaries and an affiliate in the aggregate amount of ¥23,529 million ($199 million).

Expenditures related to a train accident on the Fukuchiyama Line amounted to ¥4,245 million and have been included in "Other, net," a component of "other income (expenses)" in the accompanying non-consolidated statement of income for the year ended March 31, 2006. The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for this accident as well as other related costs; however, it is unable to estimate the amounts of such expenses on a reasonable basis at the present time.

15. Amounts per Share

Amounts per share at March 31, 2007, 2006 and 2005 and for the years then ended were as follows:

	Yen			*U.S. dollars*
	2007	2006	2005	2007
Net assets	¥266,660.13	¥251,114.87	¥237,157.57	$2,259
Net income	22,341.69	17,570.30	24,002.61	189
Cash dividends	6,000.00	6,000.00	6,000.00	50

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. Diluted net income per share has not been presented for the years ended March 31, 2007, 2006 and 2005 since the Company had no potentially dilutive stock at March 31, 2007, 2006 and 2005.

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.

16. Subsequent Events

(1) Based on a resolution adopted at a meeting of the Board of Directors held on March 22, 2007, the Company determined to issue straight bonds on May 21, 2007 as follows:

Description	The 14th West Japan Railway Bonds
Issuance date	May 30, 2007
Total issuance amount	¥10,000 million ($84 million)
Issue price	¥99.98 ($0.84) with a face value of ¥100 ($0.84)
Annual interest rate	2.23%
Type	Unsecured
Maturity	May 28, 2027
Usage of funds	Repayment of long-term payables

(2) The following appropriation of retained earnings, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the shareholders of the Company held on June 22, 2007:

	Millions of yen	*Millions of U.S. dollars*
Cash dividends (¥3,000 = U.S.$25 per share)	¥6,000	$50