Financial Section

Management's Discussion and Analysis of Operations
(Consolidated Basis)

Results of Operations

Operating revenues for fiscal 2008 (ended March 31, 2008) expanded 2.2% from the previous fiscal year to ¥1,290.1 billion, the fifth consecutive year-on-year increase. This was due mainly to a ¥12.6 billion rise in the Transportation Operations segment stemming from timetable revisions, widespread availability of the Shinkansen Express Reservation service, and other factors that increased use of the Shinkansen service. Increases in the Sales of Goods and Food Services segment and the Real Estate Business segment also contributed to the rise in operating revenues.

Operating income was up 1.5% from the previous fiscal year to ¥137.4 billion, the eighth consecutive rise. The increase was realized despite a ¥12.7 billion expansion in operating expenses arising from greater maintenance and miscellaneous expenses and the impact of a change in accounting procedures for depreciation, together with an increase in the cost of sales in the Sales of Goods and Food Services segment.

Net income rose for the second consecutive year, up 1.6% to ¥57.7 billion. The increase was realized due to a 5.4% improvement in net financial expenses to a net loss of ¥34.9 billion, despite the recording of reserves for environmental safety measures and unredeemed travel coupons at subsidiary companies.

Factors Affecting Results of Operations

■ *Revenues*

The Transportation Operations segment's operating revenues are derived mainly from railway transportation. Revenue from railway transportation depends mainly on the number of passengers, and so is affected by numerous factors including competition from other modes of transportation and rival railway companies, as well as economic conditions, and the falling birthrate and aging population.

The Sales of Goods and Food Services segment's revenues primarily consist of income from department businesses, merchandise sales, and restaurant operations. Revenue in this segment is influenced by economic conditions, and competition from other department stores, retailers, and restaurants. Because businesses in this segment are operated at many stations and in surrounding areas, the number of passengers also has an impact. However, because the number of people using stations remains relatively stable, there is less of an impact from such factors on revenue in this segment compared to other companies in the same industry. The number of new store openings and store closings also has an effect.

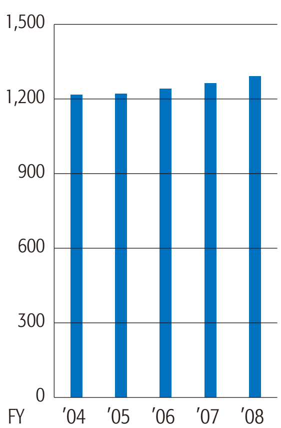
The Real Estate Business segment's revenues are derived mainly from leasing income from facilities in and around stations. Although this segment is affected by economic conditions, the impact is less than that for competitors, as stations enjoy relatively stable traffic, and tenants prefer offices that are conveniently located either on station premises or in the surrounding areas.

The Other Businesses segment's revenues primarily consist of income from hotel and travel agency operations. Hotel revenue is affected mainly by economic conditions, room rates, and competition from other hotels. Travel agency revenue is affected mainly by competition from other agents, as well as anything that deters travel, such as adverse economic conditions or terrorist attacks.

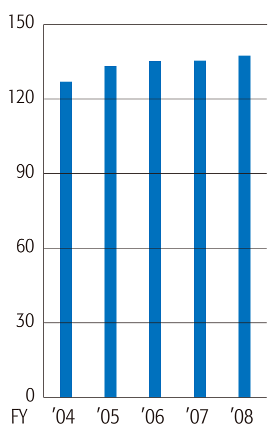
■ *Expenses*

Personnel costs declined ¥2.5 billion from the previous fiscal year to ¥269.9 billion. With many employees taking advantage of JR-West's early retirement program, staff numbers necessary to maintain operations are secured through new hires and other means. Both employee numbers and personnel costs have declined as a result.

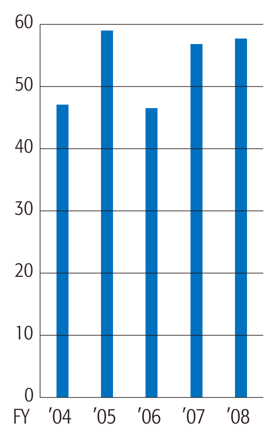
Operating Revenues
(Billion ¥)



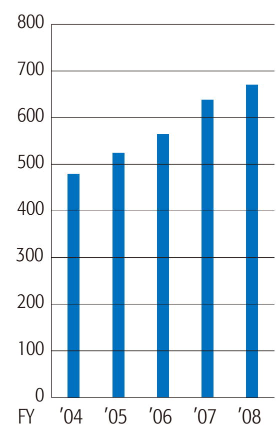
Operating Income
(Billion ¥)



Net Income
(Billion ¥)



Total Net Assets
(Billion ¥)



In terms of non-personnel costs, JR-West is working to achieve structural cost reductions through the introduction of rolling stock and equipment that are easily maintained, mechanization, and the improvement of existing infrastructure, while placing the highest priority on ensuring safety. However, we have also continued to implement safety improvement measures in response to the serious accident that occurred when a train derailed on the Fukuchiyama Line between Tsukaguchi and Amagasaki. As a result, for the foreseeable future we anticipate a rise in expenses as necessary to enhance safety.

JR-West leases the JR Tozai Line from Kansai Rapid Railway Co., Ltd. Since April 1, 2004, annual rail usage charges have been renegotiated every three years, and determined in consideration of interest rate fluctuations and other factors. As a result, expenses paid for the subject fiscal year amounted to approximately ¥16.6 billion.

Among other expenses, interest expense is a major factor. The JR-West Group's total interest expense for the subject fiscal year declined ¥1.8 billion to ¥35.4 billion, due to reduction of long-term debt and payables and lower interest rates.

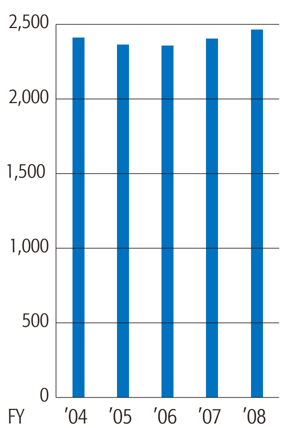
Liquidity and Capital Sources

■ *Cash Flows*

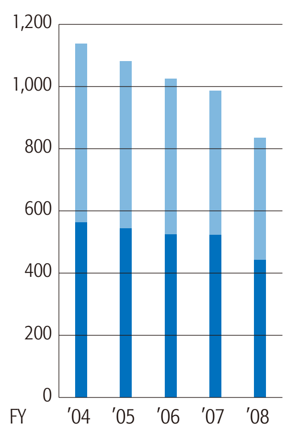
Net cash provided by operating activities amounted to ¥222.1 billion, a rise of ¥33.5 billion from the previous fiscal year. The main factors affecting cash were an increase in operating revenues of the Transportation Operations segment and decrease in retirement benefit payments.

Net cash used in investing activities amounted to ¥179.2 billion, a rise of ¥47.5 billion from the previous fiscal year. The main factor affecting cash was an increase in purchases of property, plant and equipment.

Total Assets
(Billion ¥)



Long-Term Debt and Payables
(Billion ¥)



Long-term payables
Long-term debt

Note: Long-term debt and payables includes the current portion of long-term debt and long-term payables.

Net cash used in financing activities amounted to ¥55.8 billion, ¥1.1 billion more than in the previous fiscal year. Although expenditures for repayment of long-term loans declined, expenditures for acquisition of treasury stock increased.

As a result, cash and cash equivalents at the end of fiscal 2008 decreased ¥12.9 billion from the end of the previous fiscal year to ¥44.6 billion.

■ *Capital Demand and Capital Expenditures*

JR-West made capital expenditures totaling ¥224.5 billion in fiscal 2008, of which the Transportation Operations segment accounted for ¥194.3 billion, the Sales of Goods and Food Services segment ¥5.3 billion, the Real Estate Business segment ¥15.6 billion, and the Other Businesses segment ¥9.2 billion. Capital investment in the Transportation Operations segment was mainly for railroad infrastructure centered on safety enhancements, and purchases of new rolling stock.

The Group's capital expenditures in the Sales of Goods and Food Services, Real Estate Business, and Other Businesses segments were mainly for construction of new facilities, and renovation of aged facilities. The Group has already announced its plans for renovation of Osaka Station and development of the New North Building, as well as its plan for expansion of ACTY Osaka. The JR-West Group anticipates capital expenditures for these projects to be approximately ¥200.0 billion at this point, with completion scheduled for the spring of 2011.

Further, in response to the serious accident that occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations, JR-West is implementing various safety improvement measures, including installing operational safety equipment and other infrastructure-based initiatives necessary to further enhance safety, and is considering a range of other measures to bolster safety.

■ *Liquidity and Financing*

The JR-West Group receives substantial amounts of cash on a daily basis mainly from the Transportation Operations segment, ensuring a sufficient level of cash flow. At the same time, however, we recognize that improving financial efficiency is very important in terms of business management. As part of our efforts in this area, in October 2002 we introduced a cash management service (CMS), ensuring effective utilization of Group funds.

In terms of financing, JR-West typically procures funds required for repayment of existing debt, capital expenditures or other expenses, in an amount not covered by the Group's cash flows. Financing methods, including corporate bonds and long-term bank loans, are determined through a comprehensive consideration of market trends, interest rates, and other factors. For short-term financing, we raise necessary capital mainly through short-term bonds.

We have further concluded commitment line contracts allowing use of funds in accordance with prescribed conditions, such as in the event of a major earthquake.

Consolidated Balance Sheets

West Japan Railway Company and its consolidated subsidiaries
As of March 31, 2008, 2007 and 2006

	Millions of yen			Millions of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
ASSETS				
Current assets:				
Cash (Notes 3 and 10)	**¥ 44,836**	¥ 57,814	¥ 56,093	**$ 452**
Marketable securities (Note 4)	**—**	—	3	**—**
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	**2,423**	2,483	2,133	**24**
Trade	**90,834**	94,593	83,564	**917**
Less allowance for doubtful accounts	**(335)**	(397)	(351)	**(3)**
Inventories (Note 5)	**22,246**	19,379	17,939	**224**
Income taxes refundable (Note 13)	**108**	329	194	**1**
Deferred income taxes (Note 13)	**19,938**	18,679	19,426	**201**
Prepaid expenses and other current assets	**41,087**	33,217	28,855	**415**
Total current assets	**221,138**	226,100	207,859	**2,233**
Investments:				
Unconsolidated subsidiaries and affiliates (Note 6)	**42,920**	41,013	38,264	**433**
Other securities (Notes 4 and 10)	**17,117**	23,834	26,762	**172**
Total Investments	**60,038**	64,847	65,027	**606**
Property, plant and equipment, at cost (Notes 7, 8, 10 and 11)**:**				
Land	**657,469**	658,519	655,311	**6,641**
Buildings and structures	**2,730,404**	2,681,260	2,639,039	**27,579**
Machinery, equipment and vehicles	**1,102,962**	1,039,468	1,004,483	**11,141**
Tools, furniture and fixtures	**97,320**	91,132	84,552	**983**
Construction in progress	**81,301**	66,296	59,442	**821**
	4,669,458	4,536,677	4,442,829	**47,166**
Less accumulated depreciation	**(2,640,818)**	(2,563,530)	(2,491,949)	**(26,674)**
Property, plant and equipment, net	**2,028,639**	1,973,146	1,950,880	**20,491**
Deferred income taxes (Note 13)	**109,035**	92,698	88,022	**1,101**
Other assets	**43,978**	44,872	44,179	**444**
Total assets	**¥2,462,831**	¥2,401,667	¥2,355,969	**$24,877**

See accompanying notes to consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
LIABILITIES AND NET ASSETS				
Current liabilities:				
Short-term loans (Note 9)	**¥ 13,630**	¥ 13,137	¥ 14,445	**$ 137**
Current portion of long-term debt (Notes 9 and 10)	**87,979**	49,352	88,904	**888**
Current portion of long-term payables (Note 11)	**34,630**	36,562	36,170	**349**
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**2,901**	3,581	5,823	**29**
Trade	**171,676**	170,967	145,145	**1,734**
Prepaid railway fares received	**31,260**	30,507	30,503	**315**
Deposits and advances received	**127,306**	130,841	115,269	**1,285**
Accrued expenses	**61,756**	60,213	65,419	**623**
Accrued income taxes (Note 13)	**35,369**	20,474	27,946	**357**
Allowance for loss on restructuring of a subsidiary (Note 1(10))	**—**	—	259	**—**
Allowance for customer point program (Note 1(14))	**670**	—	—	**6**
Deferred income taxes (Note 13)	**—**	198	—	**—**
Other current liabilities (Note 10)	**11,514**	12,918	11,259	**116**
Total current liabilities	**578,698**	528,757	541,148	**5,845**
Long-term debt (Notes 9, 10 and 21(1))	**441,495**	473,192	435,663	**4,459**
Long-term payables (Note 11)	**393,157**	427,689	464,205	**3,971**
Accrued retirement benefits (Note 15)	**257,038**	219,693	201,677	**2,596**
Allowance for antiseismic reinforcement measures (Note 1(11))	**2,222**	9,931	14,400	**22**
Allowance for environmental safety measures (Note 1(12))	**11,466**	7,426	7,543	**115**
Allowance for unredeemed gift tickets (Note 2(7))	**2,667**	—	—	**26**
Deferred income taxes (Note 13)	**141**	113	76	**1**
Other long-term liabilities	**88,748**	97,012	99,230	**896**
Minority interests	**—**	—	27,769	**—**
Contingent liabilities (Note 16)				
Net assets:				
Shareholders' equity (Note 17):				
Common stock:				
Authorized – 8,000,000 shares;				
Issued and outstanding – 2,000,000 shares	**100,000**	100,000	100,000	**1,010**
Capital surplus	**55,000**	55,000	55,000	**555**
Retained earnings (Note 21(3))	**489,366**	443,658	398,910	**4,943**
Less treasury stock, at cost (Note 21(2))	**(10,343)**	(327)	(327)	**(104)**
Total shareholders' equity	**634,022**	598,331	553,583	**6,404**
Valuation and translation adjustments:				
Net unrealized holding gain on securities (Note 4)	**4,552**	8,864	10,670	**45**
Net deferred gain on hedging instruments	**95**	348	—	**0**
Total valuation and translation adjustments	**4,647**	9,212	10,670	**46**
Minority interests	**32,167**	30,305	—	**324**
Total net assets	**670,838**	637,849	564,254	**6,776**
Total liabilities and net assets	**¥2,462,831**	¥2,401,667	¥2,355,969	**$24,877**

Consolidated Statements of Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Millions of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Operating revenues	**¥1,290,190**	¥1,262,935	¥1,240,098	**$13,032**
Operating expenses:				
Transportation, other services and cost of sales	**944,207**	919,294	899,513	**9,537**
Selling, general and administrative expenses (Note 12)	**208,569**	208,299	205,367	**2,106**
	1,152,777	1,127,593	1,104,880	**11,644**
Operating income	**137,413**	135,341	135,218	**1,388**
Other income (expenses):				
Interest and dividend income	**461**	331	372	**4**
Interest expense	**(35,424)**	(37,298)	(39,799)	**(357)**
Equity in earnings of affiliates	**1,298**	1,016	1,214	**13**
Amortization of prior service cost (Note 1(8))	**(2,826)**	(2,142)	4,039	**(28)**
Loss on impairment of fixed assets (Note 8)	**(4,103)**	(242)	—	**(41)**
Provision of allowance for antiseismic reinforcement measures (Note 1(11))	**—**	—	(14,400)	**—**
Provision of allowance for environmental safety measures (Note 1(12))	**(4,400)**	—	(7,543)	**(44)**
Other, net (Note 16)	**9,166**	3,864	794	**92**
	(35,828)	(34,469)	(55,321)	**(361)**
Income before income taxes and minority interests	**101,584**	100,872	79,896	**1,026**
Income taxes (Note 13)**:**				
Current	**56,559**	44,320	50,280	**571**
Deferred	**(14,737)**	(2,816)	(19,306)	**(148)**
	41,822	41,504	30,974	**422**
Income before minority interests	**59,762**	59,368	48,922	**603**
Minority interests	**(2,054)**	(2,576)	(2,396)	**(20)**
Net income	**¥ 57,707**	¥ 56,791	¥ 46,525	**$ 582**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net deferred gain on hedging instruments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2005	¥100,000	¥55,000	¥365,303	¥(327)	¥519,976	¥ 4,381	¥ —	¥ 4,381	¥ —	¥524,357
Net income for the year	—	—	46,525	—	46,525	—	—	—	—	46,525
Cash dividends	—	—	(13,000)	—	(13,000)	—	—	—	—	(13,000)
Bonuses to directors and corporate auditors	—	—	(92)	—	(92)	—	—	—	—	(92)
Decrease in retained earnings resulting from inclusion of a subsidiary in consolidation	—	—	(41)	—	(41)	—	—	—	—	(41)
Increase in retained earnings resulting from merger of consolidated and unconsolidated subsidiaries	—	—	215	—	215	—	—	—	—	215
Net changes in items other than shareholders' equity	—	—	—	—	—	6,289	—	6,289	—	6,289
Balance at March 31, 2006	¥100,000	¥55,000	¥398,910	¥(327)	¥553,583	¥10,670	¥ —	¥10,670	¥ —	¥564,254
Reclassified balance at March 31, 2006	—	—	—	—	—	—	348	348	30,305	30,654
Net income for the year	—	—	56,791	—	56,791	—	—	—	—	56,791
Cash dividends	—	—	(12,000)	—	(12,000)	—	—	—	—	(12,000)
Decrease in retained earnings resulting from merger of consolidated subsidiaries	—	—	(43)	—	(43)	—	—	—	—	(43)
Net changes in items other than shareholders' equity	—	—	—	—	—	(1,806)	—	(1,806)	—	(1,806)
Balance at March 31, 2007	¥100,000	¥55,000	¥443,658	¥(327)	¥598,331	¥ 8,864	¥348	¥ 9,212	¥30,305	¥637,849
Net income for the year	**—**	**—**	**57,707**	**—**	**57,707**	**—**	**—**	**—**	**—**	**57,707**
Cash dividends	**—**	**—**	**(12,000)**	**—**	**(12,000)**	**—**	**—**	**—**	**—**	**(12,000)**
Increase in treasury stock resulting from change in shares of an affiliate	**—**	**—**	**—**	**(16)**	**(16)**	**—**	**—**	**—**	**—**	**(16)**
Purchases of treasury stock	**—**	**—**	**—**	**(9,999)**	**(9,999)**	**—**	**—**	**—**	**—**	**(9,999)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(4,312)**	**(253)**	**(4,565)**	**1,862**	**(2,703)**
Balance at March 31, 2008	**¥100,000**	**¥55,000**	**¥489,366**	**¥(10,343)**	**¥634,022**	**¥4,552**	**¥ 95**	**¥ 4,647**	**¥32,167**	**¥670,838**

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net deferred gain on hedging instruments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	$1,010	$555	$4,481	$(3)	$6,043	$ 89	$3	$ 93	$306	$6,442
Net income for the year	**—**	**—**	**582**	**—**	**582**	**—**	**—**	**—**	**—**	**582**
Cash dividends	**—**	**—**	**(121)**	**—**	**(121)**	**—**	**—**	**—**	**—**	**(121)**
Increase in treasury stock resulting from change in shares of an affiliate	**—**	**—**	**—**	**(0)**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Purchases of treasury stock	**—**	**—**	**—**	**(101)**	**(101)**	**—**	**—**	**—**	**—**	**(101)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(43)**	**(2)**	**(46)**	**18**	**(27)**
Balance at March 31, 2008	**$1,010**	**$555**	**$4,943**	**$(104)**	**$6,404**	**$ 45**	**$0**	**$ 46**	**$324**	**$6,776**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Millions of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from operating activities				
Income before income taxes and minority interests	**¥ 101,584**	¥ 100,872	¥ 79,896	**$ 1,026**
Adjustments for:				
Depreciation and amortization	**128,085**	112,827	111,900	**1,293**
Loss on impairment of fixed assets	**4,103**	242	—	**41**
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	**24,864**	31,076	58,328	**251**
Loss on disposal of property, plant and equipment	**11,111**	12,692	13,368	**112**
Amortization of negative goodwill arising from consolidation	**–**	—	(18)	**–**
Increase (decrease) in allowance for doubtful accounts	**275**	(1)	(717)	**2**
Increase in accrued retirement benefits	**37,344**	18,016	1,711	**377**
Increase (decrease) in accrued bonuses	**468**	(7)	(1,625)	**4**
(Decrease) increase in other accruals	**(157)**	(4,649)	22,212	**(1)**
Interest and dividend income	**(461)**	(331)	(372)	**(4)**
Interest expense	**35,424**	37,298	39,799	**357**
Net gain on sales of investments in securities	**—**	—	(77)	**—**
Equity in earnings of affiliates	**(1,298)**	(1,016)	(1,214)	**(13)**
Gain on contributions received for construction	**(25,891)**	(31,714)	(58,724)	**(261)**
Decrease (increase) in notes and accounts receivable	**4,235**	(10,731)	(8,476)	**42**
Increase in inventories	**(2,866)**	(1,439)	(2,159)	**(28)**
(Decrease) increase in notes and accounts payable	**(21,504)**	20,738	(12,877)	**(217)**
(Decrease) increase in accrued consumption taxes	**(2,177)**	2,039	(821)	**(21)**
Other	**5,606**	(7,293)	10,050	**56**
Subtotal	**298,747**	278,617	250,184	**3,017**
Interest and dividend income received	**472**	265	373	**4**
Interest paid	**(35,564)**	(37,398)	(40,271)	**(359)**
Income taxes paid	**(41,472)**	(52,865)	(46,205)	**(418)**
Net cash provided by operating activities	**222,183**	188,618	164,080	**2,244**
Cash flows from investing activities				
Payments for time deposits with a maturity of more than three months	**(230)**	(335)	(12,160)	**(2)**
Proceeds from time deposits with a maturity of more than three months	**230**	765	12,160	**2**
Purchases of property, plant and equipment	**(224,864)**	(175,024)	(156,155)	**(2,271)**
Proceeds from sales of property, plant and equipment	**2,847**	4,272	4,172	**28**
Contributions received for construction	**45,027**	41,858	42,889	**454**
Increase in investments in securities	**(1,198)**	(1,961)	(513)	**(12)**
Proceeds from sales of investments in securities	**44**	—	329	**0**
Increase in long-term loans receivable	**(641)**	(689)	(282)	**(6)**
Collection of long-term loans receivable	**736**	266	10,396	**7**
Other	**(1,232)**	(928)	(2,612)	**(12)**
Net cash used in investing activities	**(179,281)**	(131,776)	(101,765)	**(1,810)**
Cash flows from financing activities				
Increase in short-term loans	**1,526**	2,139	2,863	**15**
Proceeds from long-term loans	**26,300**	57,100	12,300	**265**
Repayment of long-term loans	**(49,383)**	(89,135)	(30,983)	**(498)**
Proceeds from issuance of bonds	**29,982**	29,981	—	**302**
Repayment of long-term payables	**(36,431)**	(36,093)	(38,425)	**(367)**
Purchases of treasury stock	**(9,999)**	—	—	**(101)**
Cash dividends paid to the Company's shareholders	**(12,025)**	(12,002)	(13,001)	**(121)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(112)**	(112)	(112)	**(1)**
Other	**(5,735)**	(6,566)	(2,038)	**(57)**
Net cash used in financing activities	**(55,879)**	(54,690)	(69,397)	**(564)**
Net (decrease) increase in cash and cash equivalents	**(12,978)**	2,151	(7,083)	**(131)**
Cash and cash equivalents at beginning of year	**57,584**	55,433	62,241	**581**
Increase in cash and cash equivalents resulting from merger of consolidated and unconsolidated subsidiaries and initial consolidation of subsidiaries	**—**	—	275	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 44,606**	¥ 57,584	¥ 55,433	**$ 450**

See accompanying notes to consolidated financial statements.

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

Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of West Japan Railway Company (the "Company") and its 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 Financial Instruments and Exchange Act 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 ¥99 = U.S.$1.00, the exchange rate prevailing on March 31, 2008. 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 have been 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.

During the year ended March 31, 2007, Daitetsu Kogyo Co., Ltd., an affiliate, changed its fiscal year end from February 28 to March 31. Accordingly, the accompanying consolidated financial statements include the Company's equity in the undistributed earnings of the affiliate for the thirteen-month period from March 1, 2006 through March 31, 2007.

All assets and liabilities of the subsidiaries are revalued 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 their respective dates 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 and 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 net assets. 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 determined primarily by the following methods:

Merchandise:	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 are stated at cost (see Note 7). 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 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) 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 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 ¥321,242 million is being 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. This is expensed primarily as "Amortization of prior service cost" in the accompanying consolidated statements of income for the years ended March 31, 2008, 2007 and 2006.

(9) 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.

(10) Allowance for loss on restructuring of a subsidiary

Allowance for loss on restructuring of a subsidiary provides for losses related to the business restructuring of an unconsolidated subsidiary at an estimate of the amount to be borne by the consolidated subsidiaries.

(11) 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.

(12) 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.

As the Company found soil pollution in a portion of land under development which it owns, an allowance has been provided at a reasonably estimated amount to meet expenditures of the related clean-up costs at March 31, 2008. Such allowance is applicable to the entire portion of the land where soil pollution was found excluding the area for which an adjustment is necessary with respect to the amount of clean-up costs to be borne by the former owner and the amount to be borne by the Company.

(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 swap contracts 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 been applied to the underlying debt.

(14) Allowance for customer point program

Allowance for customer point program is provided for the points granted to customers at a reasonably estimated amount.

2. Adoption of New Accounting Standard

(1) Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries 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).

Under the accounting standard and guidance, certain items which were previously presented as assets or liabilities are now presented as components of net assets. Such items include minority interests and deferred gain or loss on derivative instruments.

Total shareholders' equity prior to the adoption of this accounting standard amounted to ¥607,195 million at March 31, 2007.

(2) Financial instruments

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries 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 the accounting standard and practical guidance, bond discount receivables of ¥18 million, which arose from the bond issuances at July 28, 2006 and February 19, 2007, were deducted from the respective nominal amounts.

(3) Business combinations

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (Business Accounting Council, issued on October 31, 2003) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 revised on December 22, 2006).

(4) Deferred assets

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted "Tentative Solution on Accounting for Deferred Assets" (ASBJ Practical Issues Task Force No. 19 issued on August 11, 2006).

(5) Accounting standard for measurement of inventories

Effective the year ended March 31, 2008, the Company and its consolidated subsidiaries have early adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). The effect of this adoption on the consolidated financial statements for the year ended March 31, 2008 was immaterial.

(6) Change in the method of accounting for depreciation of property, plant and equipment

In accordance with the 2007 revision of the Corporation Tax Law of Japan, effective April 1, 2007, the method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 has been changed to the declining-balance method stipulated in the revised law.

The Company publicized the revised medium-term management targets of the group as important management challenges remained which mainly consisted of "Promotion of measures to enhance safety" and "Provision of quality services and products preferred by customers" at October 31, 2006. The Company completed the installation of ATS and quake-proof reinforcements of elevated railroads and so forth during the year ended March 31, 2007. The Company continuously engages in enhancing safety subsequent to April 1, 2007 and will also steadily go ahead with various projects in the railway business, such as preparing for the expansion of Kyushu Shinkansen to Hakata station to commence through-service operations between Kyushu and Sanyo Shinkansen at the end of the year ending March 31,

2011. In addition, the Company will steadily go ahead with its plan for the renovation of Osaka station and the development of the New North building. The Company will also continuously improve the stations in order to make them convenient, attractive and selectable by more users such as via the installation of barrier-free facilities, which are more convenient and functional, and making changes to the designs of existing stations resulting from the development of commercial facilities in the stations.

Considering the above condition of investments and renovation related to buildings in the future, earlier depreciation of buildings would be able to reflect more properly the condition of buildings for operations, for instance stations.

In addition, in accordance with the 2007 revision of Corporation Tax Law of Japan, effective April 1, 2007, the method of accounting for depreciation of property, plant and equipment acquired before April 1, 2007 has been changed. Property, plant and equipment acquired before April 1, 2007 which have been depreciated to their respective residual value are depreciated to memorandum value by the straight-line method over a period of 5 years. This change has been made mainly in consideration of the Company's buildings' condition of disposition and the trend in accounting practice to set residual value at one yen.

The effect of this change was to increase depreciation expense included in operating expenses by ¥9,433 million ($95 million) and decrease operating income, and income before income taxes and minority interests by the same amount for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method. In addition, depreciation expense with respect to the residual value of existing property, plant and equipment amounted to ¥7,199 million ($72 million) for the year ended March 31, 2008 and has been included as a part of the increase in depreciation expense mentioned above.

(7) Allowance for unredeemed gift tickets

Unutilized gift tickets issued by certain consolidated subsidiaries were credited to income after a fixed period had passed from their respective dates of issuance. Until the year ended March 31, 2007, gift tickets which were utilized after having been credited to income were expensed at the time of exchange. Effective the year ended March 31, 2008, the Company has adopted an accounting standard for allowances (Auditing and Assurance Practice Committee Statement No. 42 revised on April 13, 2007). As a result, certain consolidated subsidiaries have provided an allowance for unredeemed gift tickets at a reasonably estimated amount which is expected to be incurred based on the historical redemption ratio. The effect of this change in method of accounting was to increase operating revenues and operating income by ¥67 million ($0 million) and to decrease income before income taxes and minority interests by ¥2,667 million ($26 million) for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

3. Cash and Cash Equivalents

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2008, 2007 and 2006 are reconciled to the balances of cash and cash equivalents as presented in the accompanying consolidated statements of cash flows for the years then ended as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Cash	**¥44,836**	¥57,814	¥56,093	**$452**
Time deposits with an original maturity in excess of three months, included in cash	**(230)**	(230)	(660)	**(2)**
Cash and cash equivalents	**¥44,606**	¥57,584	¥55,433	**$450**

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, 2008, 2007 and 2006. 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 net assets, net of deferred income taxes.

Investments in marketable securities at March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen					
	2008			2007		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥6,373**	**¥13,549**	**¥7,176**	¥6,752	¥20,807	¥14,054
Debt securities:						
Government bonds	**3**	**3**	**0**	2	2	0
Subtotal	**6,376**	**13,553**	**7,176**	6,755	20,810	14,054
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**716**	**644**	**(72)**	109	62	(47)
Debt securities:						
Government bonds	**25**	**25**	**(0)**	25	25	(0)
Subtotal	**742**	**669**	**(72)**	135	88	(47)
Total	**¥7,118**	**¥14,222**	**¥7,104**	¥6,890	¥20,898	¥14,007

	Millions of yen			Millions of U.S. dollars		
	2006			**2008**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥6,379	¥23,317	¥16,938	**$64**	**$136**	**$72**
Debt securities:						
Government bonds	—	—	—	**0**	**0**	**0**
Subtotal	6,379	23,317	16,938	**64**	**136**	**72**
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	109	78	(31)	**7**	**6**	**(0)**
Debt securities:						
Government bonds	25	25	(0)	**0**	**0**	**(0)**
Subtotal	135	103	(31)	**7**	**6**	**(0)**
Total	¥6,514	¥23,420	¥16,906	**$71**	**$143**	**$71**

Sales of, and aggregate gain and loss on sales of, investments in securities for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Sales	**¥—**	¥—	¥329	**$—**
Aggregate gain	**—**	—	77	**—**
Aggregate loss	**—**	—	—	**—**

At March 31, 2008, the redemption schedule for investments in securities by maturity date was as follows:

	Millions of yen		Millions of U.S. dollars	
	2008		**2008**	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Government bonds	**¥28**	**¥—**	**$0**	**$—**
	¥28	**¥—**	**$0**	**$—**

The carrying value of investments in non-marketable securities at March 31, 2008, 2007 and 2006 was as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Unlisted equity securities	**¥2,809**	¥2,841	¥3,249	**$28**
Other	**85**	93	3,096	**0**
	¥2,895	¥2,935	¥6,345	**$29**

5. Inventories

Inventories at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Rails, materials, supplies, merchandise and contracts in process	**¥22,246**	¥19,379	¥17,939	**$224**

6. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Investments in:				
Unconsolidated subsidiaries	**¥ 7,310**	¥ 6,668	¥ 4,861	**$ 73**
Affiliates	**35,609**	34,344	33,402	**359**
	¥42,920	¥41,013	¥38,264	**$433**

7. 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, is also deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

The contributions deducted from the acquisition costs of property, plant and equipment for the years ended March 31, 2008, 2007 and 2006 totaled ¥24,864 million ($251 million), ¥31,076 million and ¥58,328 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2008, 2007 and 2006 amounted to ¥525,033 million ($5,303 million), ¥501,302 million and ¥473,299 million, respectively.

The compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2008, 2007 and 2006 totaled ¥3,416 million ($34 million), ¥2,513 million and ¥4,388 million, respectively.

8. 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 determined to dispose of and idle assets primarily at each asset. Consequently, for the years ended March 31, 2008 and 2007, the Company wrote down the following fixed assets to their respective recoverable value and recorded a related loss on impairment of fixed assets totaling ¥4,103 million ($41 million) and ¥242 million, respectively, in the accompanying consolidated statements of income for the years then ended:

	Millions of yen		Millions of U.S. dollars
	2008	2007	**2008**
Assets to be disposed of:			
Land held in Hiroshima City, Hiroshima Prefecture – 1 item	**¥ —**	¥242	**$ —**
Rolling stock held in Chikushi District, Fukuoka Prefecture – 48 items	**2,225**	—	**22**
Idle assets:			
Land mainly held in Kobe City, Hyogo Prefecture – 29,000 m^2	**1,878**	—	**18**
Total	**¥4,103**	¥242	**$41**

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

9. 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, 2008, 2007 and 2006 ranged from 0.66% to 1.20%, from 0.15% to 0.99%, and from 0.15% to 0.38%, respectively.

Long-term debt at March 31, 2008, 2007 and 2006 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
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	**$1,767**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.49%, due from 2022 through 2028	**104,964**	74,981	45,000	**1,060**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.0% to 8.5%, due in installments from 2009 through 2021	**63,956**	74,009	84,852	**646**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.79% to 2.76%, due in installments from 2009 through 2021	**163,669**	175,628	195,689	**1,653**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.7%, due in installments from 2009 through 2019	**6,460**	7,110	7,815	**65**
Other	**15,425**	15,815	16,210	**155**
	529,475	522,545	524,567	**5,348**
Less current portion	**(87,979)**	(49,352)	(88,904)	**(888)**
	¥441,495	¥473,192	¥435,663	**$4,459**

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2009	¥ 87,979	$ 888
2010	62,765	633
2011	33,448	337
2012	44,768	452
2013	33,267	336
2014 and thereafter	267,245	2,699
	¥529,475	$5,348

10. Pledged Assets

Assets pledged at March 31, 2008 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Bank deposits included in cash	**¥ 230**	**$ 2**
Investments in other securities	**302**	**3**
Land	**190**	**1**
Buildings and structures	**20,740**	**209**
	¥21,463	**$216**

The indebtedness secured by such collateral at March 31, 2008 was as follows:

	Millions of yen	Millions of U.S. dollars
Current portion of long-term loans included in current portion of long-term debt	**¥ 650**	**$ 6**
Long-term loans included in long-term debt	**5,810**	**58**
Other current liabilities	**1,991**	**20**
	¥8,451	**$85**

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

11. Long-Term Payables

Long-term payables at March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2009 through 2017	**¥230,372**	¥265,791	¥300,899	**$2,326**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2009 through 2052	**188,838**	189,282	189,698	**1,907**
Other	**8,576**	9,176	9,778	**86**
	427,788	464,251	500,376	**4,321**
Less current portion	**(34,630)**	(36,562)	(36,170)	**(349)**
	¥393,157	¥427,689	¥464,205	**$3,971**

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from Shinkansen Holding Corporation ("SHC") for a 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, 2008, 2007 and 2006 were 4.28%, 4.33% and 4.37%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2009	¥ 34,630	$ 349
2010	33,502	338
2011	30,050	303
2012	39,126	395
2013	40,871	412
2014 and thereafter	249,606	2,521
	¥427,788	$4,321

12. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,716 million ($67 million), ¥6,403 million and ¥6,770 million for the years ended March 31, 2008, 2007 and 2006, respectively.

13. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 40.69% for the years ended March 31, 2008, 2007 and 2006.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31 2008, 2007 and 2006 has been omitted because the differences between these tax rates were 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, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Deferred tax assets:				
Accrued bonuses included in accrued expenses	**¥ 14,202**	¥ 14,010	¥ 14,010	**$ 143**
Accrued enterprise taxes included in accrued income taxes	**3,161**	1,931	2,659	**31**
Accrued retirement benefits	**104,403**	89,236	81,860	**1,054**
Unrealized gain on property, plant and equipment	**7,061**	6,698	6,193	**71**
Tax loss carryforwards	**152**	207	445	**1**
Other	**24,011**	23,415	20,253	**242**
Gross deferred tax assets	**152,993**	135,499	125,422	**1,545**
Valuation allowance	**(6,279)**	(5,444)	(501)	**(63)**
Total deferred tax assets	**146,714**	130,055	124,920	**1,481**
Deferred tax liabilities:				
Unrealized holding gain on securities	**(2,892)**	(5,702)	(6,882)	**(29)**
Contributions received for construction deducted from acquisition costs of property, plant and equipment	**(12,883)**	(11,313)	(9,104)	**(130)**
Gain on valuation of assets of consolidated subsidiaries	**(1,443)**	(1,443)	(1,443)	**(14)**
Other	**(661)**	(530)	(117)	**(6)**
Total deferred tax liabilities	**(17,881)**	(18,989)	(17,548)	**(180)**
Deferred tax assets, net	**¥128,832**	¥111,065	¥107,372	**$1,301**

14. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation/amortization and net book value of the leased property as of March 31, 2008, 2007 and 2006, which would have been reflected in the accompanying consolidated 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					
	2008			2007		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥ 731**	**¥ 207**	**¥ 524**	¥ 448	¥ 128	¥ 319
Tools, furniture and fixtures	**2,049**	**829**	**1,220**	1,975	1,168	807
Software included in other assets	**141**	**87**	**54**	299	248	51
	¥2,923	**¥1,124**	**¥1,798**	¥2,723	¥1,544	¥1,178

	Millions of yen			Millions of U.S. dollars		
	2006			**2008**		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased property:						
Machinery, equipment and vehicles	¥ 425	¥ 124	¥ 301	**$ 7**	**$ 2**	**$ 5**
Tools, furniture and fixtures	3,634	2,949	684	**20**	**8**	**12**
Software included in other assets	611	391	220	**1**	**0**	**0**
	¥4,671	¥3,465	¥1,206	**$29**	**$11**	**$18**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2008, 2007 and 2006 totaled ¥492 million ($4 million), ¥565 million and ¥713 million, respectively. These amounts are equal to the depreciation/amortization expense of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2009	¥ 489	$ 4
2010 and thereafter	1,308	13
	¥1,798	$18

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2008, 2007 and 2006 for finance lease transactions in which certain consolidated subsidiaries of the Company are the lessors and which are currently accounted for as operating leases:

	Millions of yen					
	2008			2007		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥3,678**	**¥ 833**	**¥2,845**	¥2,725	¥ 836	¥1,888
Tools, furniture and fixtures	**4,328**	**1,877**	**2,451**	4,245	1,479	2,765
	¥8,007	**¥2,710**	**¥5,296**	¥6,970	¥2,315	¥4,654

	Millions of yen			Millions of U.S. dollars		
	2006			**2008**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥2,338	¥ 951	¥ 1,386	**$37**	**$ 8**	**$28**
Tools, furniture and fixtures	3,483	1,486	1,997	**43**	**18**	**24**
	¥5,822	¥2,438	¥3,383	**$80**	**$27**	**$53**

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2008, 2007 and 2006 were ¥1,363 million ($13 million), ¥1,207 million and ¥1,053 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2008, 2007 and 2006 computed by the straight-line method over the respective lease terms amounted to ¥1,254 million ($12 million), ¥1,087 million and ¥933 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2009	¥1,341	$13
2010 and thereafter	4,440	44
	¥5,782	$58

15. 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 termination of employment occurs. Certain consolidated subsidiaries have a funded defined contribution pension plan administered by a government agency.

The funded and accrued status of the retirement benefit plans of the Company and its consolidated subsidiaries and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Retirement benefit obligation	**¥(377,161)**	¥(376,375)	¥(401,479)	**$(3,809)**
Plan assets at fair value	**10,927**	11,943	11,851	**110**
Unfunded retirement benefit obligation	**(366,233)**	(364,431)	(389,628)	**(3,699)**
Unrecognized net retirement benefit obligation at transition	**67,824**	99,283	130,741	**685**
Unrecognized actuarial loss	**43,747**	48,009	57,168	**441**
Unrecognized prior service cost	**(2,004)**	(2,235)	187	**(20)**
Net retirement benefit obligation	**(256,666)**	(219,375)	(201,529)	**(2,592)**
Prepaid pension cost	**372**	318	147	**3**
Accrued retirement benefits	**¥(257,038)**	¥(219,693)	¥(201,677)	**$(2,596)**

The components of retirement benefit expenses for the years ended March 31, 2008, 2007 and 2006 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	**2008**
Service cost	**¥15,656**	¥15,852	¥15,294	**$158**
Interest cost	**7,450**	7,932	8,133	**75**
Expected return on plan assets	**(262)**	(264)	(229)	**(2)**
Amortization of net retirement benefit obligation at transition	**31,458**	31,458	31,458	**317**
Amortization of actuarial loss	**7,208**	7,291	4,753	**72**
Amortization of prior service cost	**2,582**	1,975	(4,039)	**26**
	¥64,093	¥64,245	¥55,372	**$647**

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

	2008	2007	2006
Discount rate	**Principally 2.0%**	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	**Principally 2.5%**	Principally 2.5%	Principally 2.5%

16. Contingent Liabilities

At March 31, 2008, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥8,612 million ($86 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 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 expenditures on a reasonable basis at the present time.

17. Shareholders' Equity

The 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 consolidated balance sheets and consolidated statements of changes in net assets. The Company's legal reserve amounted to ¥11,327 million ($114 million) at March 31, 2008, 2007 and 2006.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2008 and 2007 are summarized as follows:

Number of shares

	March 31, 2007	Increase	Decrease	**March 31, 2008**
Common stock	2,000,000	—	—	**2,000,000**
Treasury stock	885	17,480	—	**18,365**

Number of shares

	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock	2,000,000	—	—	2,000,000
Treasury stock	885	—	—	885

18. Amounts per Share

Amounts per share at March 31, 2008, 2007 and 2006 and for the years then ended were as follows:

	Yen			U.S. dollars
	2008	2007	2006	**2008**
Net assets	**¥322,294.60**	¥303,906.52	¥282,245.00	**$3,255**
Net income	**28,954.78**	28,415.07	23,281.96	**292**
Cash dividends	**6,000.00**	6,000.00	6,000.00	**60**

Net assets per share have been computed based on 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, 2008, 2007 and 2006 since the Company had no potentially dilutive stock at March 31, 2008, 2007 and 2006.

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

19. Derivatives

Certain 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 forward foreign exchange contracts and interest-rate swaps; 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.

Certain 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 their respective internal bylaws. The accounting departments or other management departments manage the related risk.

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

20. 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, 2008, 2007 and 2006 is outlined as follows:

Millions of yen

							2008
	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	**¥ 861,273**	**¥212,803**	**¥ 76,757**	**¥139,356**	**¥ 1,290,190**	**¥ —**	**¥ 1,290,190**
Intersegment operating revenues and transfers	**16,577**	**42,772**	**13,883**	**165,640**	**238,873**	**(238,873)**	**—**
Operating revenues	**877,850**	**255,576**	**90,640**	**304,996**	**1,529,064**	**(238,873)**	**1,290,190**
Operating expenses	**780,371**	**250,305**	**65,994**	**293,959**	**1,390,631**	**(237,853)**	**1,152,777**
Operating income	**¥ 97,479**	**¥ 5,270**	**¥ 24,646**	**¥ 11,036**	**¥ 138,433**	**¥ (1,020)**	**¥ 137,413**
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:							
Total assets	**¥1,846,782**	**¥ 89,093**	**¥305,049**	**¥266,962**	**¥ 2,507,888**	**¥ (45,056)**	**¥ 2,462,831**
Depreciation and amortization	**107,026**	**2,866**	**11,665**	**6,527**	**128,085**	**—**	**128,085**
Loss on impairment of fixed assets	**4,103**	**—**	**—**	**—**	**4,103**	**—**	**4,103**
Capital expenditures	**194,365**	**5,320**	**15,686**	**9,215**	**224,588**	**—**	**224,588**

Millions of yen

2007	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	¥ 848,586	¥208,185	¥ 62,725	¥143,438	¥1,262,935	¥ —	¥1,262,935
Intersegment operating revenues and transfers	16,391	43,993	13,308	156,884	230,578	(230,578)	—
Operating revenues	864,978	252,178	76,033	300,323	1,493,514	(230,578)	1,262,935
Operating expenses	767,703	247,125	54,814	287,814	1,357,457	(229,863)	1,127,593
Operating income	¥ 97,274	¥ 5,053	¥ 21,219	¥ 12,508	¥ 136,056	¥ (715)	¥ 135,341
II. Total assets, depreciation and amortization and capital expenditures:							
Total assets	¥1,792,324	¥ 76,218	¥282,757	¥256,404	¥2,407,704	¥ (6,037)	¥2,401,667
Depreciation and amortization	93,079	2,503	10,481	6,763	112,827	—	112,827
Capital expenditures	146,156	3,922	23,246	10,115	183,440	—	183,440

Millions of yen

2006	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	¥ 834,537	¥203,942	¥ 62,884	¥138,734	¥1,240,098	¥ —	¥1,240,098
Intersegment operating revenues and transfers	16,308	40,532	12,818	141,503	211,162	(211,162)	—
Operating revenues	850,846	244,474	75,702	280,238	1,451,261	(211,162)	1,240,098
Operating expenses	752,835	238,517	55,201	268,778	1,315,332	(210,452)	1,104,880
Operating income	¥ 98,010	¥ 5,957	¥ 20,501	¥ 11,459	¥ 135,928	¥ (710)	¥ 135,218
II. Total assets, depreciation and amortization and capital expenditures:							
Total assets	¥1,769,956	¥ 72,445	¥286,432	¥216,572	¥2,345,406	¥ 10,563	¥2,355,969
Depreciation and amortization	91,955	2,307	10,395	7,241	111,900	—	111,900
Capital expenditures	140,262	3,548	9,080	8,186	161,078	—	161,078

	Millions of U.S. dollars						
	2008						
	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	**$ 8,699**	**$2,149**	**$ 775**	**$1,407**	**$13,032**	**$ —**	**$ 13,032**
Intersegment operating revenues and transfers	**167**	**432**	**140**	**1,673**	**2,412**	**(2,412)**	**—**
Operating revenues	**8,867**	**2,581**	**915**	**3,080**	**15,445**	**(2,412)**	**13,032**
Operating expenses	**7,882**	**2,528**	**666**	**2,969**	**14,046**	**(2,402)**	**11,644**
Operating income	**$ 984**	**$ 53**	**$ 248**	**$ 111**	**$ 1,398**	**$ (10)**	**$ 1,388**
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:							
Total assets	**$18,654**	**$ 899**	**$3,081**	**$2,696**	**$25,332**	**$ (445)**	**$24,877**
Depreciation and amortization	**1,081**	**28**	**117**	**65**	**1,293**	**—**	**1,293**
Loss on impairment of fixed assets	**41**	**—**	**—**	**—**	**41**	**—**	**41**
Capital expenditures	**1,963**	**53**	**158**	**93**	**2,268**	**—**	**2,268**

As described in Note 2(6), in accordance with the 2007 revision of the Corporate Tax Law, the method of accounting for depreciation of property, plant and equipment has been changed to the procedure stipulated in the revised law. Consequently, operating expenses of the “Transportation” segment, “Sales of goods and food services” segment, “Real estate business” segment and “Other” segment increased by ¥8,809 million ($88 million), ¥86 million ($0 million), ¥332 million ($3 million) and ¥205 million ($2 million), respectively, for the year ended March 31, 2008 over the corresponding amounts which would have been recorded under the previous method. In addition, operating income of each segment decreased by the same amount as that of the corresponding increase in operating expenses mentioned above for each segment for the year ended March 31, 2008 from the corresponding amount which would have been recorded under the previous method.

21. Subsequent Events

(1) Based on a resolution approved at a meeting of the Board of Directors held on March 19, 2008, the Company determined to issue the following straight bonds on May 22, 2008:

Description	The 16th Series of West Japan Railway Bonds
Issuance date	May 30, 2008
Total issuance amount	¥10,000 million ($101 million)
Issue price	¥100 ($1.01) with a face value of ¥100 ($1.01)
Annual interest rate	1.989%
Type	Unsecured
Maturity	March 19, 2020
Usage of funds	Repayment of long-term payables

Description	The 17th Series of West Japan Railway Bonds
Issuance date	May 30, 2008
Total issuance amount	¥15,000 million ($151 million)
Issue price	¥100 ($1.01) with a face value of ¥100 ($1.01)
Annual interest rate	2.427%
Type	Unsecured
Maturity	March 17, 2028
Usage of funds	Repayment of long-term payables

(2) Purchases of the Company's shares of common stock

At a meeting of the Board of Directors of the Company held on May 16, 2008, pursuant to the provision of Article 156 of the Corporation Law of Japan, the Company approved a purchase of up to 50,000 of its own shares of common stock with an aggregate acquisition cost not exceeding ¥20,000 million ($202 million) during the period from June 2, 2008 through March 31, 2009 in order to be able to make quick and flexible capital transactions in response to changes in the management environment.

(3) The following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at a meeting of the shareholders of the Company held on June 24, 2008:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥3,000 = U.S.$30 per share)	¥5,947	$60

Report of Independent Auditors

The Board of Directors
West Japan Railway Company

We have audited the accompanying consolidated balance sheets of West Japan Railway Company and consolidated subsidiaries as of March 31, 2008, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows 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 consolidated financial position of West Japan Railway Company and consolidated subsidiaries at March 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2 (6) to the consolidated financial statements, the Company and its consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment effective the year ended March 31, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 ShinNihon

Osaka, Japan
June 24, 2008

Ernst & Young ShinNihon