

# *Financial Section*

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Consolidated Basis

## RESULTS OF OPERATIONS

In fiscal 2009, ended March 31, 2009, operating revenues declined 1.2% year on year, to ¥1,275.3 billion, the first decline in six fiscal years, due to decreases in revenues from the Transportation Operations segment and non-transportation businesses. In the Transportation Operations segment, a rapid deterioration in the business climate in the second half of the fiscal year reduced use of Shinkansen and conventional lines, counteracting continued efforts to increase convenience by revising timetables and promoting the use of the Express Reservation system. Meanwhile, in non-transportation businesses, operating revenues from the Sales of Goods and Food Services segment increased. However, operating revenues from the Real Estate Business segment and the Other Businesses segment decreased.

Although operating expenses of ¥1,152.7 billion were at the same level as in the previous fiscal year, operating revenues decreased. As a result, operating income declined 10.8%, to ¥122.5 billion, the first decrease in nine fiscal years.

Despite a reduction in JR-West's interest expense, recurring profit, decreasing for the first time in nine fiscal years, was down 12.9%, to ¥94.8 billion. Net financial expenses improved 2.7%, to ¥34.0 billion.

Extraordinary profit improved because of the absence of the previous fiscal year's recognitions of reserves for environmental safety measures and unredeemed travel coupons at subsidiary companies. Nevertheless, net income declined 5.5%, to ¥54.5 billion, the first decrease in three fiscal years.

## 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, such as aircraft, rival railway companies, economic conditions, and the falling birthrate and aging population.

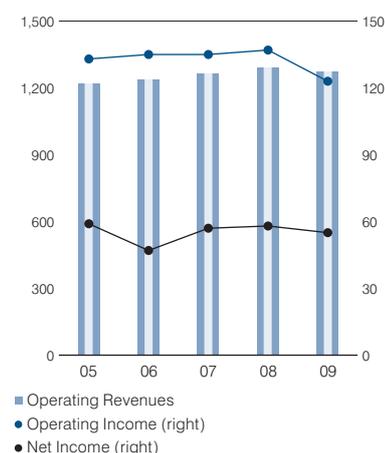
The Sales of Goods and Food Services segment's revenues primarily consist of income from department store businesses, merchandise sales, and restaurant operations. Revenue in this segment is influenced by economic conditions, and competition from other department stores, retailers, and restaurants. Because 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

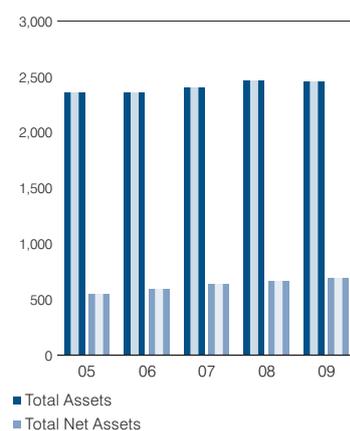
### Operating Results

Billions of yen



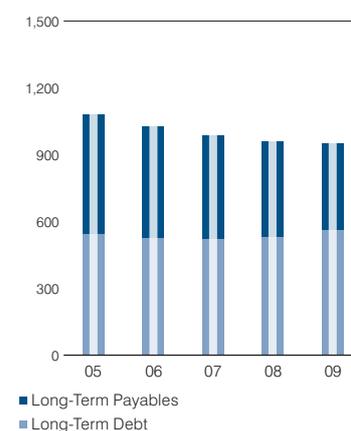
### Total Assets and Total Net Assets

Billions of yen



### Long-Term Debt and Payables

Billions of yen



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

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 ¥1.3 billion from the previous fiscal year, to ¥268.6 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.

In terms of non-personnel costs, JR-West is working to achieve structural reductions of costs related to maintenance through the introduction of rolling stock and equipment that is 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 amounted to approximately ¥16.6 billion.

Among other expenses, interest expense is a major factor. The JR-West Group's total interest expense declined ¥0.8 billion, to ¥34.5 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 decreased ¥43.3 billion, to ¥178.8 billion, which was the result of decreases in operating revenues from the Transportation Operations segment, the Real Estate Business segment, and the Other Businesses segment and an increase in income taxes paid.

Net cash used in investing activities decreased ¥6.6 billion, to ¥172.6 billion, which was mainly attributable to lower purchases of property, plant and equipment.

Net cash used in financing activities decreased ¥45.6 billion, to ¥10.1 billion, principally because of a decrease in reduction of long-term debt.

As a result, cash and cash equivalents at the end of fiscal 2009 decreased ¥3.4 billion from the end of the previous fiscal year, to ¥41.1 billion.

### Capital Demand and Capital Expenditures

JR-West made capital expenditures totaling ¥197.7 billion in fiscal 2009, of which the Transportation Operations segment accounted for ¥160.4 billion, the Sales of Goods and Food Services segment ¥2.5 billion, the Real Estate Business segment ¥26.5 billion, and the Other Businesses segment ¥8.3 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 to renovate Osaka Station and develop the New North Building, as well as its plan to expand the ACTY Osaka building. The JR-West Group anticipates capital expenditures for these projects to be approximately ¥210.0 billion at this point, with completion scheduled in fiscal 2012.

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.

## OPERATIONAL AND OTHER RISK INFORMATION

The following are issues related to operational and accounting matters that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR-West as of December 1, 2009. Further, the following is a translation of the business risks included in a document the Company submitted pursuant to Japan's Financial Instruments and Exchange Act.

### 1 RELATING TO SAFETY

An accident may occur in the Company's railway operations that could seriously impact the lives or damage the personal property of passengers. This may also have a significant impact on the Company's management.

The Company, which engages in railway operations as its core business, considers it the most important management priority to provide reliable and high-quality transportation services that give its customers a sense of safety.

However, on April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki Stations. Resolving that such an accident would never again occur, the Company formulated a new Corporate Philosophy, which expresses its vision and its sense of values as a company, and a new Safety Charter, which defines its fundamental safety policies. It has since implemented a series of measures to realize this Corporate Philosophy and Safety Charter. Moreover, the Company has steadily carried out measures in response to the remarks, including "proposals" and "opinions," in the report on the investigation of the railway accident on the Fukuchiyama Line published by the Aircraft and Railway Accidents Investigation Commission in June 2007. In addition, based on the recommendations made by the Safety Promotion Expert Committee established in September 2007, the Company has formulated and been steadily implementing its Basic Safety Plan to run for five years from April 2008. The Company is combining these measures with other safety measures implemented up until the present time to realize higher levels of safety.

It has also been working to create a safety management system based on the Railway Safety Management Manual instituted in accordance with the amended Railway Business Law of Japan implemented in 2006.

### 2 RELATING TO LEGAL MATTERS IN RAILWAY OPERATIONS

#### 1. The Railway Business Law (1986, Law No. 92)

Under the Railway Business Law, railway operators are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter the "MLIT") for each type of line and railway business operated (article 3). Railway operators are also required to receive approval from the MLIT for the upper limits of passenger fares and specified surcharges. Subject to prior notification, railway operators can then set or change these fares and surcharges within those upper limits (article 16). Railway operators are also required to give the MLIT advance notice of the elimination or suspension of railway operations. In the case of eliminating operations, the notice must be given at least one year in advance (articles 28 and 28-2).

#### 2. The Law for Partial Amendment of the Law for Passenger Railway Companies and Japan Freight Railway Company (Hereinafter the "Amended JR Law") (2001, Law No. 61)

The amended JR Law enacted on December 1, 2001 (hereinafter, the "date of enactment"), excluded JR-East, JR-Central, and JR-West (the three passenger railway companies operating on Japan's main island of Honshu, hereinafter the "passenger railway companies in Honshu") from the application of the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (hereinafter the "JR Law") (1986, Law No. 88). Specifically, the passenger railway companies in Honshu are excluded from the scope of all regulations pertaining to approval of the offering for the purchase of shares and others and approval of long-term borrowings, as defined by the JR Law (article 5); and approval of transfers of important assets (article 8), among others.

According to the amended JR Law's supplementary provisions, the MLIT, based on the details of the restructuring of Japanese National Railways (JNR) and in order to ensure the convenience of passengers and otherwise, shall issue guidelines relating to items that need to be considered for the time being with respect to the management by any entity of all or part of the passenger railway companies in Honshu and their railway operations that occur as a result of assignments, mergers, divisions or successions on or after the date of enactment, and as designated by the MLIT (hereinafter, a "New Company"). The guidelines' stipulations are outlined in the three points below. Those guidelines were issued on November 7, 2001, and applied on December 1, 2001. The MLIT may advise and issue instructions to any New Company to ensure operational management in accordance with those guidelines. Moreover, the amended JR Law enables the MLIT to issue recommendations and directives in the event that its operational management runs counter to the guidelines without any justifiable reason.

- The guidelines' stipulated items:

- Items relating to ensuring alliances and cooperation among companies (among New Companies or among any New Company and Hokkaido Railway Company, Shikoku Railway Company, Kyushu Railway Company and Japan Freight Railway Company) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations among those companies
- Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of JNR and items relating to ensuring the convenience of users through the development of stations and other railway facilities
- Items relating to consideration that New Companies should give to the avoidance of actions that inappropriately obstruct business activities or unduly hamper the interests of small and medium-sized companies operating businesses within the operational areas of the New Companies that are similar to the businesses of the New Companies

Also, regarding all bonds issued by the passenger railway companies in Honshu prior to the amended JR Law's date of enactment, transitional measures are stipulated, such as the continuance following the date of enactment of the stipulation of general security in article 4 of the JR Law.

### 3 RELATING TO ESTABLISHMENT OF AND CHANGES TO FARES AND SURCHARGES

#### 1. System and Procedure for Approval of Fares and Surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limits of passenger fares and Shinkansen limited express surcharges (hereinafter "fares and surcharges") (Railway Business Law, article 16, item 1).

Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits, as well as limited express surcharges on conventional lines and other charges (Railway Business Law, article 16, items 3 and 4).

Although passenger railway companies in Honshu, Hokkaido Railway Company, Shikoku Railway Company, and Kyushu Railway Company (hereinafter the "passenger railway companies") can revise fares independently, a system was created among those companies when JNR was restructured to ensure the convenience of users. At present, contracts among those companies enable the realization of total fares and surcharges for passengers and packages requiring services that span two or more such companies. In

addition, the passenger railway companies have established a system in which the fares and surcharges per kilometer decrease as distance traveled increases.

#### 2. JR-West's Stance on Fare Revisions

- JR-West has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revision (April 1997).

Major private sector railway operators apply for fare revisions, if, following a comprehensive management judgment that takes into account the operations of ancillary departments, it anticipates it will record a loss in after-tax net income in its railway operations. In the majority of cases, the revisions are implemented once the above-described procedures have been completed. In the case of the Company, revenues obtained from ancillary departments constitute a small percentage of its total revenues, and based on this it considers the timely implementation of fair revisions to be a necessary measure to secure a fair level of profit.

- The Company strives to promote efficient business management to secure profits and to progress measures toward rationalization. However, efforts such as these are premised on realizing a fair profit. The Company considers the securing of profits at a level that enables it to fund dividend payments to its shareholders, future capital investment, and measures to strengthen its financial structure, to be a prerequisite for its business management.
- The Company recognizes the need to independently conduct capital expenditures, which have a substantial impact on the cost structure of its railway operations, based upon its clearly defined management responsibility.

#### 3. Stance of the Ministry of Land, Infrastructure, Transport and Tourism

With respect to the implementation of fare revisions by JR-West, the position of the MLIT is as follows:

- The MLIT will approve applications for the revision of the upper limits of fares from railway operators, including JR-West, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and fair profits, based on the efficient management of those companies ("total cost") (Railway Business Law, article 16, item 2).

In addition, a three-year period is stipulated for the calculation of costs.

- Even if the railway operator has non-railway businesses, the calculation of total cost, which comprises reasonable costs and fair profits, including required dividend payments to its shareholders,

is based only on the operator's railway operations. Further, railway operators are required to submit their capital expenditure plans for increasing transportation services to ease congestion of commuter services and for other improvements in passenger services. Upon inspections, the capital cost necessary for such enhancements may be approved for the calculation of total cost.

(c) Total cost is calculated using a "rate base method" that estimates the capital cost (interest payments, dividend payments, and other financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, in relation to the capital invested in the railway operations. The calculation of total cost is as follows:

total cost = operating cost<sup>1</sup> + operational return

- operational return = assets utilized in railway business operations (rate base) x operational return rate
- assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital<sup>2</sup>
- operational return rate = equity ratio<sup>3</sup> x return rate on equity<sup>4</sup> + borrowed capital ratio<sup>3</sup> x return rate on borrowed capital<sup>4</sup>

<sup>1</sup> With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a "yardstick formula" is used to encourage indirect competition among respective operators. The results of those comparisons are issued at the end of every business year and form the basis for the calculation of costs.

<sup>2</sup> Working capital = operating costs and certain stores

<sup>3</sup> Equity ratio, 30%; Borrowed capital ratio, 70%

<sup>4</sup> Return rate on equity is based on the average of yields to subscribers of public and corporate bonds, the overall industrial average return rate on equity and the dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

(d) Subject to prior notification to the MLIT, railway operators can set or change fares and surcharges or other charges within the upper limits approved. However, the MLIT can issue directives requiring changes in fares and surcharges by specifying the date therefor if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, article 16, item 5):

- The setting or change would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the setting or change would give rise to unfair competition with other railway operators.

## 4 RELATING TO PLAN FOR THE DEVELOPMENT OF NEW SHINKANSEN LINES

### 1. Construction Plans for New Shinkansen Lines

The new Shinkansen lines are the five lines indicated in the plan for the Shinkansen line network that was decided pursuant to the 1970 Nationwide Shinkansen Railway Development Law, namely the Hokuriku Shinkansen Line (Tokyo–Osaka), the Hokkaido Shinkansen Line (Aomori–Sapporo), the Tohoku Shinkansen Line (Morioka–Aomori), the Kyushu Shinkansen Line (the Kagoshima route between Fukuoka–Kagoshima), and the Kyushu Shinkansen Line (the Nagasaki route between Fukuoka–Nagasaki). Of these lines, the Company is the operator of the Joetsu–Osaka segment of the Hokuriku Shinkansen Line.

Construction of the five lines was postponed due to deteriorating management conditions at JNR. However, the development scheme described below was created to solve the financial and other problems after the inauguration of JR companies, and construction has been progressed on a sequential basis. Until the present time, operations have commenced on the Hokuriku Shinkansen Line (between Takasaki–Nagano), the Tohoku Shinkansen Line (between Morioka–Hachinohe), and the Kyushu Shinkansen Line (between Shin-Yatsushiro–Kagoshima-Chuo). Currently, the construction contractor, Japan Railway Construction, Transport and Technology Agency (JRRT), is progressing construction on the following sections of the five lines: the Hokuriku Shinkansen Line (between Nagano–Hakusan car maintenance center and the Fukui Station segment), the Tohoku Shinkansen Line (between Hachinohe–Shin-Aomori), the Hokkaido Shinkansen Line (between Shin-Aomori–Shin-Hakodate), the Kyushu Shinkansen Line (Kagoshima route between Hakata–Shin-Yatsushiro), and the Kyushu Shinkansen Line (Nagasaki route between Takeo Onsen–Isahaya).

### Creation of the Development Scheme

- August 1988 (arrangement between the national government and ruling parties)
  - Ruling on the start of construction according to a priority sequence and development standards for three Shinkansen lines and five segments
- December 1990 (arrangement between the national government and ruling parties)
  - Ruling on a management separation for JR companies of the conventional lines running parallel with the new Shinkansen lines
- December 1996 (agreement between the national government and ruling parties)
  - Ruling that JR companies' usage fees and other charges would be within the range of its expected benefits
- December 2000 (arrangement between the national government and ruling parties)
  - Ruling on new segments for start of construction, and reviews of development standards and periods
- December 2004 (arrangement between the national government and ruling parties)
  - Ruling on new segments for start of construction, and reviews of development standards and periods
  - Details of the December 2004 arrangement between the national government and ruling parties on the Hokuriku Shinkansen Line*
    - Between Nagano–Hakusan car maintenance center
      - Assuming full development standards and following the completion of required approval procedures, construction was to begin on the segments between Toyama–Isurugi and Kanazawa–Hakusan car maintenance center at the beginning of fiscal 2006, targeting a coordinated completion date of the end of fiscal 2015. However, every effort was to be made to complete construction ahead of schedule.

- Between Hakusan car maintenance center–Nanetsu  
For heightened efficiency, construction on the Fukui Station segment was to take place in coordination with construction for the elevation of the Echizen Railway Line. Following the completion of required approval procedures, construction was to begin at the beginning of fiscal 2006 with a targeted completion date of the end of fiscal 2009.
- Between Nanetsu–Tsuruga  
Following the completion of necessary procedures, there was to be an immediate application for approval for the construction implementation plan.

### Construction on the Hokuriku Shinkansen Line within the Company's Area of Operations

- August 1992  
Between Isurugi–Kanazawa (24 km): Construction commenced as a Shinkansen Railway Standard New Line (Super Express)
- April 2001  
Between Joetsu–Toyama (110 km): Construction commenced at full standard. (Prior to this, in September 1993 construction had commenced on the segment between Itoigawa–Shin-Kurobe as a Shinkansen Railway Standard New Line (Super Express), and at this point in time was changed to full standard.)
- April 2005  
Between Toyama–Kanazawa (59 km): Construction commenced at full standard. (Prior to this, in August 1992 construction had commenced on the segment between Isurugi–Kanazawa as a Shinkansen Railway Standard New Line (Super Express), and at this point in time was changed to full standard.)  
Fukui Station segment: Construction commenced
- April 2006  
Hakusan car maintenance center: Construction commenced

## 2. Cost Burden of the Development of New Shinkansen Lines

Regarding the construction cost for the development of new Shinkansen lines, based on the agreement in December 1996 between the national government and the ruling parties, in 1997 the Nationwide Shinkansen Railway Development Law and related laws were revised to stipulate that “the national government, local governments, and JR passenger railway companies would assume the cost of new Shinkansen lines,” and that “the cost burden by JR passenger railway companies which mainly operate on new Shinkansen lines shall be paid out of their usage fees and other charges, with the upper limit to be determined by the range of expected benefits.”

Also, those subsidies that constitute a financial resource that makes up part of the funds made available from the JR TT, to which JR-East, JR-Central, and JR-West make payments of amounts due on their Shinkansen purchase liabilities, shall be considered to be part of the cost burden borne by the national government.

Following the arrangement made between the national government and the ruling parties in December 2004, it was determined that the

cost burden of JR passenger railway companies, which correspond to the expected benefits generated accompanying the opening of the Hokkaido Shinkansen Line (Shin-Aomori–Shin-Hakodate) and the Hokuriku Shinkansen Line (Joetsu–Kanazawa), and other new Shinkansen lines, would be carefully investigated when these segments commenced operations. The Company opposes to this ruling as it considers it to lack rationality if the existing Shinkansen operators are required to bear part of the construction costs of new Shinkansen developments on segments on which they do not operate based on the assumption that they receive corresponding external benefits.

Further, following the launch of studies by the national government and ruling parties into methods of securing financing for construction on segments where construction has not yet started, the MLIT has requested the Company to provide it with data to calculate usage fees and other charges prior to the start of operations on these segments. But at the present point in time, the Company has not determined what the nature of its operations or systems for usage fees and other charges will be in the future. Moreover, future trends in social and economic conditions and trends among competing modes of transportation cannot be ascertained at the present point in time. Therefore, the Company's response is that it is extremely difficult to objectively and rationally calculate future usage fees at the current time.

## 3. The Company's Stance on the Hokuriku Shinkansen Line

Based on the December 2004 arrangement between the national government and ruling parties, the construction scheme of the Hokuriku Shinkansen Line was reviewed based on the premise that it would be developed at full standard. Based on this review, construction commenced on the segment as far as the Hakusan car maintenance center and the Fukui Station segment and an application for approval was made for a plan to implement construction on the segment between Nanetsu–Tsuruga.

At the present time, the Company's position is that the Hokuriku Shinkansen Line will be constructed in a westward direction. This is in accordance with the Company's previous contention and it will continue to appeal to the relevant national government organizations for an extension of segments to undergo construction. But even if segments to undergo construction are extended, then the Company considers it essential that the previous fundamental principles, namely that “the burden of the aforementioned usage fees and other charges will be within the limit of expected benefits” and of “the management separation from JR-West of its conventional lines running parallel with the new Shinkansen line segments,” should be protected.

## 5 RELATING TO CHANGING POPULATION DYNAMICS, SUCH AS THE DECLINING BIRTH RATE AND AGING POPULATION

According to the “Population Projections for Japan (birth rate medium variant and death rate medium variant estimates)” published by the National Institute of Population and Social Security Research in December 2006, Japan’s total population of 127.77 million people in 2005 was set to enter a longstanding depopulation process, and by 2046 was projected to fall below 100.00 million people, to 99.38 million people. The working-age population (15 to 64) peaked in 1995, and entered a depopulation phase. By 2005 it had fallen to 84.42 million people, and by 2030 it is forecast to decrease to 67.40 million people. In contrast, the old-age population (65 and over), which was 25.76 million people in 2005, was projected to increase to 36.67 million people by 2030.

Moreover, according to the “Population Projections for Japan by Prefecture” published by the said institute in May 2007, by 2005 population was decreasing in all regions excluding Minami Kanto, Chubu, and Kinki. The population in Kinki was forecast to decrease between 2005 and 2010, and the population in all regions was forecast to decrease by 2035. Further, the working-age population, and also the percentage of this age group relative to the total population is already declining in every prefecture, while the old-age population will increase until 2020. With the exception of certain prefectures, it is projected to exceed 30% of the population.

The JR-West Group’s main area of operations is West Japan, where it operates businesses that include railway, retail, real estate, and hotel operations. Depopulation and the declining birthrate and aging population trends are forecast to continue in this region. If the depopulation, declining birthrate, and aging population processes take place as projected, in the long term due to a decrease in the number of passengers and customers at the Group’s facilities and stores, this may have an effect on the Group’s business results.

## 6 RELATING TO COMPETITION

### 1. Railway Operations

The railway operations of the JR-West Group compete with the operations of other railway companies, airline companies, and alternative modes of transportation such as buses or automobiles. In addition, its performance is affected by conditions in the Japanese economy, particularly economic trends in its main area of operations, West Japan. Moreover, its railway operations could be impacted by the significant reduction in expressway tolls that are being implemented between March 2009 and March 2011. Competition trends and economic conditions in the future may have an effect on the Group’s financial condition and results of operations.

The Company’s Sanyo Shinkansen Line and intercity transportation operations on its conventional lines are primarily in competition with domestic airline companies and buses and automobiles. In particular, the Company faces extremely severe competition from airline companies due to the heightened convenience of travelling by air, because

of factors such as the opening of new airports, expanded airport capacities, increased number of flights, and lower airfares. The Company has been working to strengthen its competitiveness by improving convenience for customers. It has enhanced its provision of high-speed transportation services by launching the new N700 Series Shinkansen, by increasing departures of its Nozomi services, and by improving its Internet-reservation services such as the Express Reservation system. In addition, it has been positively working to provide customers with fundamental information on its services, such as the frequency of departures, the time required for the trip, and ticket prices.

In its Urban Network, the Company competes with other railway operators and with automobiles and buses. It has been promoting increased use of its services, by revising timetables to extend the period of operations of its Special Rapid Service trains to later hours in the night, by the opening of new stations, and by the launch of new series of trains.

In addition, it has been heightening convenience for railway passengers by continuing to install barrier-free facilities, including elevators and escalators.

### 2. Non-Railway Operations

The JR-West Group carries out non-railway operations, principally Sales of Goods and Food Services, Real Estate, and Other Businesses (including hotel business). Non-railway operations are affected by conditions in the Japanese economy, particularly economic trends in the Group’s main area of operations, West Japan. Therefore, economic conditions in the future may have an effect on the Group’s financial condition and results of operations.

In addition, its non-railway operations are faced with an increasingly severe competitive environment: in Sales of Goods and Food Services, due to the opening of retail stores by competitors in areas surrounding its shops; in Real Estate, due to the entry of new competitors and the upgrade of competitors’ commercial facilities in surrounding areas; and in Other Businesses, due to increased competition with existing and new competitors in hotel operations, such as the openings of foreign-affiliated luxury hotels or low-end budget hotels by Japanese companies. These factors may have an effect on the Group’s revenues.

However, as the Group develops its operations in the stations and areas surrounding them, it can be considered to possess competitive advantages in terms of advantageous locations. The Group coordinates its non-railway operations with its railway operations, and at the same time cooperates with local authorities to develop areas in and around stations and to revitalize commercial areas under elevated railway tracks.

The Group has been implementing measures to increase the value of its railway belts by making more effective use of its assets, such as the steady progress being made in the Osaka Station Development Project. In addition, it has been taking positive steps to enhance customer convenience, including expanding affiliated stores for ICOCA electronic money and increasing business tie-ups with other companies.

## 7 RELATING TO LONG-TERM DEBT AND PAYABLES

On its establishment in 1987 and based on the Japanese National Railways Reform Law (1986, Law No. 87), the Company inherited ¥1,015.8 billion of long-term debt from JNR. Further, on October 1, 1991, based on the Law Relating to the Transfer of Shinkansen Line Railway Facilities (1991, Law No. 45), the Company purchased the Sanyo Shinkansen Line railway facilities (excluding rolling stock) at the cost of ¥974.1 billion from the Shinkansen Holding Corporation. Through contracts with the Shinkansen Holding Corporation, of the transfer value, ¥859.1 billion is to be paid over 25.5 years and ¥114.9 billion over 60 years by half-yearly installment payments of equal amounts of principal and interest to the Railway Development Fund (presently, the Japan Railway Construction, Transport and Technology Agency) and the unpaid balance was to be recorded as long-term payables to the acquisition of railway properties.

While investing in safety and carrying out all other necessary investment, the JR-West Group is aiming to increase management stability by reducing its long-term debt (corporate bonds, long-term debt, and long-term payables to the acquisition of railway properties) and thereby decreasing its interest payments. As a result, its consolidated long-term debt at March 31, 2009 was ¥953.2 billion (including the current portion thereof). Interest payments for the years ended March 31, 2007, March 31, 2008, and March 31, 2009 were ¥37.2 billion, ¥35.4 billion, and ¥34.5 billion, respectively, equivalent to 27.6%, 25.8%, and 28.2% of operating income of the JR-West Group.

The Group will continue to pay close attention to its levels of long-term debt and payables and interest payments in order to maintain management stability. However, a reduction in free cash flow due to unforeseen circumstances could affect the JR-West Group's financial condition and results of operations.

## 8 RELATING TO MAJOR PROJECTS

### 1. Osaka Higashi Line

#### a. Details and Current Status

- April 1981  
Approval from Transport Minister based on the Japanese National Railways Law
- April 1987  
Establishment of West Japan Railway Company, which inherited the above-described approval
- May 1996  
In the government budget for fiscal 1997, the project was approved to receive funding identified in "Supplementary Funding for Operational Expenses for the Revitalization of Arterial Railroads."
- November 1996  
Establishment of quasi-public company Osaka Soto-Kanjo Railway Co., Ltd.
- December 1996  
West Japan Railway Company acquired a license for second-type railway operations and Osaka Soto-Kanjo Railway Co., Ltd. for third-type railway operations.

- February 1999  
Approval to carry out construction (Miyakojima–Kyuhoji)
- December 2002  
Approval to carry out construction (Shin-Osaka–Miyakojima)
- February 2005  
Approval to extend the deadline to complete construction (Shin-Osaka–Kyuhoji)
- August 2007  
Resolution on the names of the line and stations (5 stations to be opened in the spring of 2008)
- March 2008  
Start of operations between Hanaten–Kyuhoji
- September 2009  
Approval to extend the deadline to complete construction (Shin-Osaka–Hanaten)

#### b. Outline of the Plan

- (a) Main construction contractor: Osaka Soto-Kanjo Railway Co., Ltd. (third-type railway operator)
- (b) Main operator: West Japan Railway Company (second-type railway operator)
- (c) Planned line: Starting point; Shin-Osaka Station, Tokaido Main Line; Kyuhoji Station, Kansai Main Line  
Length; 20.3 km
- (d) No. of stations: 13 (including Shin-Osaka and Kyuhoji Stations)
- (e) Total construction cost: Approx. ¥120.0 billion
- (f) Planned construction period: Fiscal 1998 to fiscal 2012<sup>1</sup>  
(Segment between Hanaten–Kyuhoji completed in fiscal 2008)

#### c. JR-West's Stance

This line is to reciprocally connect radial railway lines on the outskirts of Osaka by utilizing the Katamachi Line between Hanaten–Yao and Shigino–Suita (commonly known as the Joto freight line) which is currently used as a freight line. The line is expected to contribute to the development of the Kinki region. In addition to contributing to the development of the areas adjacent to the railway line, it will also assist with the redevelopment of the areas to the east of Osaka—such as the Awaji district and the Hanaten/Ryuge district—and in the creation of a multiple-type railway network designed to withstand natural disasters. However, if the plan does not progress as forecast due to various changes in the operating environment or the anticipated benefits may not be obtained, this may have an effect on the Company's financial condition and results of operations.

<sup>1</sup> On June 18, 2009, Osaka Soto-Kanjo Railway Co., Ltd. applied for approval to the MLIT to extend the deadline for the completion of construction until March 31, 2019.

## 2. The Osaka Station Development Project

### a. Plan Outline

#### (a) Station renovations

Project implementing body: West Japan Railway Company

Measures: A new station built over the railway tracks to be constructed in the center part of the existing station; renovation of the concourse inside the ticket gates; improved barrier-free facilities; a Dome to be newly constructed.

#### (b) Development of passageways and the square

Project implementing body: West Japan Railway Company

Measures: Development of the passageways and the square within the building directly connecting to the square in front of the station; development of the passageways running north to south through the station and the rooftop plaza

#### (c) Development of the New North Building

Project Implementing bodies: Osaka Terminal Building Company, West Japan Railway Company

Total floor area: Approx. 210,000m<sup>2</sup>; excluding planned car parking buildings

Uses: Department store, approx. 90,000m<sup>2</sup>; specialty stores, approx. 40,000m<sup>2</sup>; offices, etc., approx. 45,000m<sup>2</sup>; cinema complex, approx. 10,000m<sup>2</sup>; station facilities, etc.

#### (d) ACTY Osaka Building expansion

Project implementing bodies: Osaka Terminal Building Company, West Japan Railway Company

Total floor area: Approx. 35,000m<sup>2</sup>

Uses: Department store, square, etc.

### b. Schedule

- May 2004  
Construction of station renovations commenced
- October 2006  
Construction of the New North Building commenced
- May 2008  
Construction of the ACTY Osaka Building expansion commenced
- Spring of 2011  
Start of operations of the New North Building and the ACTY Osaka Building expansion; start of use of the renovated passageways, square, and the station built over the railway tracks (planned)
- Winter of 2011  
Completion of the Dome (planned)

### c. Total Project Costs (for all Group companies)

Approx. ¥210.0 billion<sup>2</sup>

- Osaka Station renovations, New North Building development project: Approx. ¥190.0 billion
- ACTY Osaka Building expansion: Approx. ¥20.0 billion

### d. JR-West's Stance

The objective of this project is to develop the Osaka Station to a level suitable for its position as the gateway to Osaka City; a pleasant, highly convenient, and lively terminal station. This project will contribute to each of the JR-West's railway operations,

real estate operations, and other operations. However, if the project does no progress as forecast due to various changes in the operating environment, this may have an effect on the JR-West Group's financial condition and results of operations.

2 Revised based on various measures, including those to improve safety and for environmental protection

## 9 RELATING TO COMPUTER SYSTEMS

Computer systems play a vital role in the JR-West Group's operations, and they are utilized not only in its railway operations and for sales of reserved seats, but also in many other areas throughout the Group's operations. Accordingly, if a problem should occur with these computer systems through a human error, a natural disaster, a power failure, a computer virus, or other reasons, it may have an impact on the Group's ability to carry out operations in the area where the problem occurred.

Further, if personal or other information should leak outside of the Group because of a computer virus infection or an erroneous operation of computer systems, it may cause stakeholders to lose trust in the Group, which in turn may have an effect on the Group's financial condition and results of operations.

The Group constantly strives to prevent computer system-related problems or accidents from occurring through regular system inspections, measures to improve system functionality, and employee training. It has also been working to minimize the impact on operations should a problem or accident occur, including the development of a rapid first motion system.

## 10 RELATING TO NATURAL DISASTERS

It is possible that the JR-West Group's operations or transportation network infrastructure will suffer considerable damage due to a natural disaster, such as an earthquake, typhoon, landslide, or flood; or due to a terrorist attack. In particular, an earthquake has the potential to cause major damage. The Hanshin-Awaji (Kobe) Earthquake that occurred in January 1995 caused substantial damage to the railway network, particularly to the Sanyo Shinkansen Line and Tokaido Main Line.

The possibility that at some point in the future the Company's operations will be adversely affected by a natural disaster or any other event cannot be ruled out. However, aiming to minimize damage in the event a natural disaster or any other event should occur, the Company has introduced earthquake early detection and warning systems onto its Sanyo Shinkansen Line, earthquake emergency news flash systems onto its conventional lines, and carried out measures to reinforce the earthquake resistance of the pillars used to support elevated tracks. The Company has been implementing ahead of schedule earthquake countermeasures that have proven successful in the past in minimizing damage. In addition, under the guidance of the MLIT, it has collaborated with the Railway Technical Research Institute, the Japan Railway Construction, Transport and Technology Agency, and other JR companies operating Shinkansen lines to establish the Shinkansen Derailment Countermeasures

Committee. Based on research carried out by the committee, positive steps are being taken to avoid serious damage should an earthquake occur. These include the development of facilities and equipment that will, to the greatest possible extent, minimize the damage that might occur should an earthquake vibration cause a running train to derail.

To implement measures in response to natural disasters and other events, the Company has established a commitment line according to predetermined conditions with financial institutions should it need to raise capital even if an earthquake should occur. Moreover, it has also acquired damage insurance inclusive of earthquake insurance for its main railway facilities. However, these countermeasures may be unable to entirely compensate for all the damage incurred due to an earthquake or other natural disaster.

## **11 RELATING TO AN INFECTIOUS DISEASE OUTBREAK AND EPIDEMIC**

If a long-term infectious disease epidemic such as Severe Acute Respiratory Syndrome (SARS) that broke out in 2003, or swine influenza should occur in West Japan, it is feared that this would limit economic activities and cause passengers to refrain from taking trips, or even result in trains being unable to run. There is a danger that such an epidemic may temporarily cause the JR-West Group to be unable to continue its operations, particularly its railway operations. Such a situation may have an impact on the Group's results of operations.

While closely collaborating with government organizations and local governments, the Company is investigating ways of continuing operations should an outbreak of an infectious disease occur.

## **12 RELATING TO COMPLIANCE**

The Company, in conducting business activities, is subjected to the Corporation Law, the Financial Instruments and Exchange Law, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Act on the Protection of Personal Information and other generally applicable laws and ordinances, as well as the Railway Business Law and other laws and ordinances applicable to the relevant business category and the supervision of the relevant regulatory authorities according to the types of business. If the Company contravenes such statutory regulation or is subjected to investigations by such regulatory authorities or in some situations, to any sanction, the JR-West Group's trust of the public may be undermined and moreover, costs may be incurred to take measures to meet the situation. Such situation may have an impact on the Group's results of operations.

The Company has strived to comply with laws, ordinances and regulations, while its "Compliance Committee" has strived to keep track of risks involving compliance, devise necessary measures and promote various training and educational campaigns. The Company also has instituted an "Ethics Office" and a "Public Interest Information Office" as offices to offer advice or make contact regarding compliance.

However, on September 28, 2009, with regard to a grave issue concerning compliance that had come up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, the Company was ordered by the MLIT to conduct fact-finding inquiries, implement remediation measures, including preventive measures, based on the results of such inquiries and make a report thereof.

The Company has established a "Special Committee on Compliance" to be comprised of third-party experts, and will implement measures based on the results of the inquiries of the committee all in an effort to prevent a recurrence of similar problems and continue to strengthen its compliance structure.

## **13 RELATING TO THE FUKUCHIYAMA LINE TRAIN ACCIDENT**

On April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki, in which 106 passengers lost their lives and more than 500 were injured. Regarding the criminal liability of JR-West personnel for professional negligence resulting in the deaths and injuries in relation to that accident, the Kobe District Public Prosecutors' Office indicted the President and Representative Director (at the time of the indictment) on July 8, 2009. The Company is continuing to sincerely listen to the opinions and requests of the victims of the accident and will strive to the utmost of its abilities to respond appropriately to this accident.

The Company will continue to make compensation payments and other payments relating to the accident. At the present point in time, it is difficult to make a rational estimate of what the total amount of these payments will be.

## CONSOLIDATED BALANCE SHEETS

West Japan Railway Company and its consolidated subsidiaries  
As of March 31, 2009, 2008 and 2007

	Millions of yen			Millions of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash (Notes 3 and 10)	¥ 41,414	¥ 44,836	¥ 57,814	\$ 422
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	1,974	2,423	2,483	20
Trade	83,753	90,834	94,593	854
Less allowance for doubtful accounts	(597)	(335)	(397)	(6)
Inventories (Note 5)	24,143	22,246	19,379	246
Income taxes refundable (Note 13)	340	108	329	3
Deferred income taxes (Note 13)	19,743	19,938	18,679	201
Prepaid expenses and other current assets	37,771	41,087	33,217	385
<b>Total current assets</b>	<b>208,544</b>	<b>221,138</b>	<b>226,100</b>	<b>2,128</b>
<b>Investments:</b>				
Unconsolidated subsidiaries and affiliates (Note 6)	49,249	42,920	41,013	502
Other securities (Notes 4 and 10)	11,244	17,117	23,834	114
<b>Total investments</b>	<b>60,494</b>	<b>60,038</b>	<b>64,847</b>	<b>617</b>
<b>Property, plant and equipment, at cost (Notes 7, 8, 10 and 11):</b>				
Land	657,643	657,469	658,519	6,710
Buildings and structures	2,777,425	2,730,404	2,681,260	28,341
Machinery, equipment and vehicles	1,126,245	1,102,962	1,039,468	11,492
Tools, furniture and fixtures	105,539	97,320	91,132	1,076
Construction in progress	75,811	81,301	66,296	773
	4,742,665	4,669,458	4,536,677	48,394
Less accumulated depreciation	(2,721,154)	(2,640,818)	(2,563,530)	(27,766)
<b>Property, plant and equipment, net</b>	<b>2,021,511</b>	<b>2,028,639</b>	<b>1,973,146</b>	<b>20,627</b>
<b>Deferred income taxes (Note 13)</b>	<b>125,527</b>	<b>109,035</b>	<b>92,698</b>	<b>1,280</b>
<b>Other assets</b>	<b>45,811</b>	<b>43,978</b>	<b>44,872</b>	<b>467</b>
<b>Total assets</b>	<b>¥ 2,461,889</b>	<b>¥ 2,462,831</b>	<b>¥ 2,401,667</b>	<b>\$ 25,121</b>

See accompanying notes to consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Short-term loans (Note 9)	¥ 28,807	¥ 13,630	¥ 13,137	\$ 293
Current portion of long-term debt (Notes 9 and 10)	63,473	87,979	49,352	647
Current portion of long-term payables (Note 11)	33,503	34,630	36,562	341
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	2,630	2,901	3,581	26
Trade	146,492	171,676	170,967	1,494
Prepaid railway fares received	31,510	31,260	30,507	321
Deposits and advances received	101,149	127,306	130,841	1,032
Accrued expenses	60,224	61,756	60,213	614
Accrued income taxes (Note 13)	24,709	35,369	20,474	252
Allowance for customer point program	563	670	—	5
Deferred income taxes (Note 13)	—	—	198	—
Other current liabilities (Note 10)	16,299	11,514	12,918	166
<b>Total current liabilities</b>	<b>509,365</b>	<b>578,698</b>	<b>528,757</b>	<b>5,197</b>
<b>Long-term debt</b> (Notes 9, 10 and 21(1))	<b>500,698</b>	441,495	473,192	<b>5,109</b>
<b>Long-term payables</b> (Note 11)	<b>359,713</b>	393,157	427,689	<b>3,670</b>
<b>Accrued retirement benefits</b> (Note 15)	<b>292,774</b>	257,038	219,693	<b>2,987</b>
<b>Allowance for antiseismic reinforcement measures</b>	<b>—</b>	2,222	9,931	<b>—</b>
<b>Allowance for environmental safety measures</b>	<b>10,193</b>	11,466	7,426	<b>104</b>
<b>Allowance for unredeemed gift tickets</b>	<b>2,808</b>	2,667	—	<b>28</b>
<b>Deferred income taxes</b> (Note 13)	<b>176</b>	141	113	<b>1</b>
<b>Other long-term liabilities</b>	<b>96,555</b>	88,748	97,012	<b>985</b>
<b>Total long-term liabilities</b>	<b>1,262,920</b>	1,213,294	1,235,060	<b>12,886</b>
<b>Contingent liabilities</b> (Note 16)				
<b>Net assets:</b>				
Shareholders' equity (Note 17):				
Common stock:				
Authorized – 8,000,000 shares				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	1,020
Capital surplus	55,000	55,000	55,000	561
Retained earnings (Note 21(2))	531,236	489,366	443,658	5,420
Less treasury stock, at cost	(30,343)	(10,343)	(327)	(309)
Total shareholders' equity	655,893	634,022	598,331	6,692
Valuation and translation adjustments:				
Net unrealized holding gain on securities (Note 4)	1,004	4,552	8,864	10
Net deferred (loss) gain on hedging instruments	(233)	95	348	(2)
Total valuation and translation adjustments	770	4,647	9,212	7
Minority interests	32,938	32,167	30,305	336
<b>Total net assets</b>	<b>689,602</b>	670,838	637,849	<b>7,036</b>
<b>Total liabilities and net assets</b>	<b>¥2,461,889</b>	¥2,462,831	¥2,401,667	<b>\$25,121</b>

## CONSOLIDATED STATEMENTS OF INCOME

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Millions of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Operating revenues</b>	<b>¥1,275,308</b>	¥1,290,190	¥1,262,935	<b>\$13,013</b>
<b>Operating expenses:</b>				
Transportation, other services and cost of sales	944,505	944,207	919,294	9,637
Selling, general and administrative expenses (Note 12)	208,283	208,569	208,299	2,125
	<b>1,152,789</b>	1,152,777	1,127,593	<b>11,763</b>
<b>Operating income</b>	<b>122,519</b>	137,413	135,341	<b>1,250</b>
<b>Other income (expenses):</b>				
Interest and dividend income	588	461	331	6
Interest expense	(34,592)	(35,424)	(37,298)	(352)
Equity in earnings of affiliates	986	1,298	1,016	10
Amortization of prior service cost	—	(2,826)	(2,142)	—
Loss on impairment of fixed assets (Note 8)	(51)	(4,103)	(242)	(0)
Provision of allowance for environmental safety measures	—	(4,400)	—	—
Other, net	5,200	9,166	3,864	53
	<b>(27,868)</b>	(35,828)	(34,469)	<b>(284)</b>
<b>Income before income taxes and minority interests</b>	<b>94,651</b>	101,584	100,872	<b>965</b>
<b>Income taxes (Note 13):</b>				
Current	52,432	56,559	44,320	535
Deferred	(13,621)	(14,737)	(2,816)	(138)
	<b>38,810</b>	41,822	41,504	<b>396</b>
<b>Income before minority interests</b>	<b>55,841</b>	59,762	59,368	<b>569</b>
<b>Minority interests</b>	<b>(1,311)</b>	(2,054)	(2,576)	<b>(13)</b>
<b>Net income</b>	<b>¥ 54,529</b>	¥ 57,707	¥ 56,791	<b>\$ 556</b>

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, 2009, 2008 and 2007

	Millions of yen									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net deferred (loss) gain on hedging instruments	Total valuation and translation adjustments	Minority interests	Total net assets
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
Net income for the year	—	—	<b>54,529</b>	—	<b>54,529</b>	—	—	—	—	<b>54,529</b>
Cash dividends	—	—	<b>(12,816)</b>	—	<b>(12,816)</b>	—	—	—	—	<b>(12,816)</b>
Purchases of treasury stock	—	—	—	<b>(19,999)</b>	<b>(19,999)</b>	—	—	—	—	<b>(19,999)</b>
Decrease in retained earnings resulting from the addition of an affiliate under the equity method	—	—	<b>(193)</b>	—	<b>(193)</b>	—	—	—	—	<b>(193)</b>
Increase in retained earnings resulting from merger of an unconsolidated subsidiary	—	—	<b>351</b>	—	<b>351</b>	—	—	—	—	<b>351</b>
Net changes in items other than shareholders' equity	—	—	—	—	—	<b>(3,548)</b>	<b>(328)</b>	<b>(3,876)</b>	<b>770</b>	<b>(3,106)</b>
Balance at March 31, 2009	<b>¥100,000</b>	<b>¥55,000</b>	<b>¥531,236</b>	<b>¥(30,343)</b>	<b>¥655,893</b>	<b>¥ 1,004</b>	<b>¥(233)</b>	<b>¥ 770</b>	<b>¥32,938</b>	<b>¥689,602</b>

	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 (loss) gain on hedging instruments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	\$1,020	\$561	\$4,993	\$(105)	\$6,469	\$ 46	\$ 0	\$ 47	\$328	\$6,845
Net income for the year	—	—	<b>556</b>	—	<b>556</b>	—	—	—	—	<b>556</b>
Cash dividends	—	—	<b>(130)</b>	—	<b>(130)</b>	—	—	—	—	<b>(130)</b>
Purchases of treasury stock	—	—	—	<b>(204)</b>	<b>(204)</b>	—	—	—	—	<b>(204)</b>
Decrease in retained earnings resulting from the addition of an affiliate under the equity method	—	—	<b>(1)</b>	—	<b>(1)</b>	—	—	—	—	<b>(1)</b>
Increase in retained earnings resulting from merger of an unconsolidated subsidiary	—	—	<b>3</b>	—	<b>3</b>	—	—	—	—	<b>3</b>
Net changes in items other than shareholders' equity	—	—	—	—	—	<b>(36)</b>	<b>(3)</b>	<b>(39)</b>	<b>7</b>	<b>(31)</b>
Balance at March 31, 2009	<b>\$1,020</b>	<b>\$561</b>	<b>\$5,420</b>	<b>\$(309)</b>	<b>\$6,692</b>	<b>\$ 10</b>	<b>\$(2)</b>	<b>\$ 7</b>	<b>\$336</b>	<b>\$7,036</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Millions of U.S. dollars (Note 1)
	2009	2008	2007	2009
<b>Cash flows from operating activities</b>				
Income before income taxes and minority interests	¥ 94,651	¥ 101,584	¥ 100,872	\$ 965
Adjustments for:				
Depreciation and amortization	137,009	128,085	112,827	1,398
Loss on impairment of fixed assets	51	4,103	242	0
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	53,338	24,864	31,076	544
Loss on disposal of property, plant and equipment	7,394	11,111	12,692	75
Increase (decrease) in allowance for doubtful accounts	520	275	(1)	5
Increase in accrued retirement benefits	35,729	37,344	18,016	364
(Decrease) increase in accrued bonuses	(595)	468	(7)	(6)
Decrease in other accruals	(3,419)	(157)	(4,649)	(34)
Interest and dividend income	(588)	(461)	(331)	(6)
Interest expense	34,592	35,424	37,298	352
Equity in earnings of affiliates	(986)	(1,298)	(1,016)	(10)
Gain on contributions received for construction	(54,935)	(25,891)	(31,714)	(560)
Decrease (increase) in notes and accounts receivable	8,095	4,235	(10,731)	82
Increase in inventories	(1,826)	(2,866)	(1,439)	(18)
(Decrease) increase in notes and accounts payable	(33,736)	(21,504)	20,738	(344)
Increase (decrease) in accrued consumption taxes	2,611	(2,177)	2,039	26
Other	(1,568)	5,606	(7,293)	(16)
Subtotal	276,338	298,747	278,617	2,819
Interest and dividend income received	648	472	265	6
Interest paid	(34,827)	(35,564)	(37,398)	(355)
Income taxes paid	(63,318)	(41,472)	(52,865)	(646)
<b>Net cash provided by operating activities</b>	<b>178,840</b>	<b>222,183</b>	<b>188,618</b>	<b>1,824</b>
<b>Cash flows from investing activities</b>				
Payments for time deposits with a maturity of more than three months	(230)	(230)	(335)	(2)
Proceeds from time deposits with a maturity of more than three months	230	230	765	2
Purchases of property, plant and equipment	(201,716)	(224,864)	(175,024)	(2,058)
Proceeds from sales of property, plant and equipment	2,481	2,847	4,272	25
Contributions received for construction	40,928	45,027	41,858	417
Increase in investments in securities	(12,023)	(1,198)	(1,961)	(122)
Proceeds from sales of investments in securities	18	44	—	0
Increase in long-term loans receivable	(828)	(641)	(689)	(8)
Collection of long-term loans receivable	681	736	266	6
Other	(2,192)	(1,232)	(928)	(22)
<b>Net cash used in investing activities</b>	<b>(172,651)</b>	<b>(179,281)</b>	<b>(131,776)</b>	<b>(1,761)</b>
<b>Cash flows from financing activities</b>				
Increase in short-term loans	14,447	1,526	2,139	147
Proceeds from long-term loans	63,606	26,300	57,100	649
Repayment of long-term loans	(43,060)	(49,383)	(89,135)	(439)
Proceeds from issuance of bonds	55,000	29,982	29,981	561
Redemption of bonds	(45,000)	—	—	(459)
Repayment of long-term payables	(34,539)	(36,431)	(36,093)	(352)
Purchases of treasury stock	(19,999)	(9,999)	—	(204)
Cash dividends paid to the Company's shareholders	(12,825)	(12,025)	(12,002)	(130)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(126)	(112)	(112)	(1)
Other	12,311	(5,735)	(6,566)	125
<b>Net cash used in financing activities</b>	<b>(10,185)</b>	<b>(55,879)</b>	<b>(54,690)</b>	<b>(103)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,996)</b>	<b>(12,978)</b>	<b>2,151</b>	<b>(40)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>44,606</b>	<b>57,584</b>	<b>55,433</b>	<b>455</b>
<b>Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries</b>	<b>574</b>	<b>—</b>	<b>—</b>	<b>5</b>
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>¥ 41,184</b>	<b>¥ 44,606</b>	<b>¥ 57,584</b>	<b>\$ 420</b>

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

West Japan Railway Company and its consolidated subsidiaries  
March 31, 2009

## 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 ¥98=U.S.\$1.00, the exchange rate prevailing on March 31, 2009. 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 lower of cost or net selling value, 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 (excluding leased assets)

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) Intangible assets**

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

### **(8) Research and development costs and computer software**

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, except if they are deemed to contribute to the generation of future income or cost savings. Any such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives, generally a period of 5 years.

### **(9) Leases**

The Company and its consolidated subsidiaries have entered into contracts to lease certain equipment under noncancelable leases referred to as finance leases. Until the year ended March 31, 2008, finance leases other than those which transfer the ownership of the leased assets to the lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for as operating leases.

### **(10) 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.

### **(11) Allowance for customer point program**

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

### **(12) 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", a component of other expenses in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007.

### **(13) Allowance for antiseismic reinforcement measures**

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.

### **(14) 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. 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, 2009 and 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.

### **(15) 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. Certain consolidated subsidiaries are provided an allowance for unredeemed gift tickets at a reasonably estimated amount which is expected to be incurred based on the historical redemption ratio.

### **(16) 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.

## 2. ADOPTION OF NEW ACCOUNTING STANDARDS

### (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 these accounting standards 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 Standard 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 standards, bond discount receivables of ¥18 million, which arose from 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 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 was 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 the Kyushu Shinkansen to Hakata Station to commence through-service operations between the Kyushu and the 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 the 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 was changed. Property, plant and equipment acquired before April 1, 2007 which has 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 was 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 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 for the year ended March 31, 2008 and was 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 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 and to decrease income before income taxes and minority interests by ¥2,667 million for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

#### (8) Leases

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for

Lease Transactions" (ASBJ Statement No. 13 revised by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 revised by the ASBJ on March 30, 2007). Under the new accounting standards, lease transactions commencing on or after April 1, 2008 other than those in which the ownership of the leased assets is transferred to the Company or its consolidated subsidiaries are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee. Such leased assets under finance lease transactions are capitalized and depreciated over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the Company or its consolidated subsidiaries are accounted for in the same manner as operating leases.

The effect of this adoption on consolidated financial statements for the year ended March 31, 2009 was immaterial.

#### (9) Related party transactions

Effective the year ended March 31, 2009, the Company has adopted new accounting standards, "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13).

There were no items to be disclosed for the year ended March 31, 2009 as a result of the adoption of this new standard.

### 3. CASH AND CASH EQUIVALENTS

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2009, 2008 and 2007 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
	2009	2008	2007	2009
Cash	¥41,414	¥44,836	¥57,814	\$422
Time deposits with original maturities in excess of three months included in cash	(230)	(230)	(230)	(2)
Cash and cash equivalents	¥41,184	¥44,606	¥57,584	\$420

### 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, 2009, 2008 and 2007. 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, 2009, 2008 and 2007 are summarized as follows:

	2009			2008		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Millions of yen						
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥4,117	¥6,417	¥2,300	¥6,373	¥13,549	¥7,176
Debt securities:						
Government bonds	32	33	0	3	3	0
Subtotal	4,150	6,450	2,300	6,376	13,553	7,176
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	3,318	2,396	(921)	716	644	(72)
Debt securities:						
Government bonds	—	—	—	25	25	(0)
Subtotal	3,318	2,396	(921)	742	669	(72)
Total	¥7,468	¥8,847	¥1,378	¥7,118	¥14,222	¥7,104

	2007		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Millions of yen			
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥6,752	¥20,807	¥14,054
Debt securities:			
Government bonds	2	2	0
Subtotal	6,755	20,810	14,054
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	109	62	(47)
Debt securities:			
Government bonds	25	25	(0)
Subtotal	135	88	(47)
Total	¥6,890	¥20,898	¥14,007

	2009		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Millions of U.S. dollars			
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$42	\$65	\$23
Debt securities:			
Government bonds	0	0	0
Subtotal	42	65	23
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	33	24	(9)
Debt securities:			
Government bonds	—	—	—
Subtotal	33	24	(9)
Total	\$76	\$90	\$14

At March 31, 2009, the redemption schedule for investments in securities by maturity date was as follows:

	2009		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Millions of yen			
Government bonds	¥—	¥33	¥—
Corporate bonds	—	—	50
Total	¥—	¥33	¥50

Millions of U.S. dollars

	2009		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	\$ —	\$ 0	\$ —
Corporate bonds	—	—	0
Total	\$ —	\$ 0	\$ 0

The carrying value of investments in non-marketable securities at March 31, 2009, 2008 and 2007 was as follows:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Unlisted equity securities	¥2,276	¥2,809	¥2,841	\$23
Other	120	85	93	1
	¥2,397	¥2,895	¥2,935	\$24

## 5. INVENTORIES

Inventories at March 31, 2009 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2009	2009	2009
Merchandise and real estate for sale	¥ 5,774		\$ 58
Contracts in process	7,367		75
Rails, materials and supplies	11,001		112
	¥24,143		\$246

## 6. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates at March 31, 2009, 2008 and 2007 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Investments in:				
Unconsolidated subsidiaries	¥12,818	¥ 7,310	¥ 6,668	\$130
Affiliates	36,430	35,609	34,344	371
	¥49,249	¥42,920	¥41,013	\$502

## 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, 2009, 2008 and

2007 totaled ¥53,338 million (\$544 million), ¥24,864 million and ¥31,076 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2009, 2008 and 2007 amounted to ¥574,718 million (\$5,864 million), ¥525,033 million and ¥501,302 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, 2009, 2008 and 2007 totaled ¥10,166 million (\$103 million), ¥3,416 million and ¥2,513 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, 2009, 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 ¥51 million (\$0 million), ¥4,103 million and ¥242 million, respectively, in the accompanying consolidated statements of income for the years then ended:

	Millions of yen	
	2008	2007
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	—
Idle assets:		
Land mainly held in Kobe City, Hyogo Prefecture—29,000 m <sup>2</sup>	1,878	—
<b>Total</b>	<b>¥4,103</b>	<b>¥242</b>

Detailed information on loss on impairment of fixed assets for the year ended March 31, 2009 in the amount of ¥51 million (\$0 million) was omitted because the amount involved was immaterial.

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, 2009, 2008 and 2007 ranged from 0.26% to 1.16%, from 0.66% to 1.20%, and from 0.15% to 0.99%, respectively.

Long-term debt at March 31, 2009, 2008 and 2007 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2010 through 2019	<b>¥130,000</b>	¥175,000	¥175,000	<b>\$1,326</b>
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 1.70% to 2.49%, due from 2019 through 2029	<b>159,966</b>	104,964	74,981	<b>1,632</b>
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.00% to 8.50%, due in installments from 2010 through 2021	<b>55,063</b>	63,956	74,009	<b>561</b>
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.86% to 2.76%, due in installments from 2010 through 2025	<b>190,772</b>	163,669	175,628	<b>1,946</b>
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2010 through 2019	<b>5,810</b>	6,460	7,110	<b>59</b>
Finance lease obligations, at rates ranging from 0.00% to 3.59%, due in installments from 2010 through 2020	<b>4,116</b>	—	—	<b>42</b>
Other	<b>18,442</b>	15,425	15,815	<b>188</b>
	<b>564,171</b>	529,475	522,545	<b>5,756</b>
Less current portion	<b>(63,473)</b>	(87,979)	(49,352)	<b>(647)</b>
	<b>¥500,698</b>	¥441,495	¥473,192	<b>\$5,109</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥ 63,473	\$ 647
2011	34,177	348
2012	45,521	464
2013	54,023	551
2014	33,923	346
2015 and thereafter	333,052	3,398
	¥564,171	\$5,756

In order to achieve more efficient financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2009 was as follows:

	Millions of yen	Millions of U.S. dollars
	2009	2009
Lines of credit	¥100,000	\$1,020
Credit utilized	15,000	153
Available credit	¥ 85,000	\$ 867

## 10. PLEDGED ASSETS

Assets pledged at March 31, 2009 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	254	2
Land	190	1
Buildings and structures, net	19,831	202
	¥20,505	\$209

The indebtedness secured by such collateral at March 31, 2009 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	¥ 630	\$ 6
Long-term loans included in long-term debt	5,180	52
Other current liabilities	1,990	20
	¥7,800	\$79

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, 2009, 2008 and 2007 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2010 through 2017	¥196,877	¥230,372	¥265,791	\$2,008
Fixed interest portion at 6.35% and 6.55%, due in installments from 2010 through 2052	188,365	188,838	189,282	1,922
Other	7,974	8,576	9,176	81
	393,217	427,788	464,251	4,012
Less current portion	(33,503)	(34,630)	(36,562)	(341)
	¥359,713	¥393,157	¥427,689	\$3,670

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

("JRJT") 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 JRJT'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, 2009, 2008 and 2007 were 4.21%, 4.28% and 4.33%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥ 33,503	\$ 341
2011	30,058	306
2012	39,127	399
2013	40,878	417
2014	39,734	405
2015 and thereafter	209,913	2,141
	¥393,217	\$4,012

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥7,349 million (\$74 million), ¥6,716 million and ¥6,403 million for the years ended March 31, 2009, 2008 and 2007, 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, 2009, 2008 and 2007.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2009, 2008 and 2007 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, 2009, 2008 and 2007 are summarized as follows:

	2009	2008	Millions of yen 2007	Millions of U.S. dollars 2009
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 13,971	¥ 14,202	¥ 14,010	\$ 142
Accrued enterprise taxes included in accrued income taxes	2,378	3,161	1,931	24
Accrued retirement benefits	118,930	104,403	89,236	1,213
Unrealized gain on property, plant and equipment	7,354	7,061	6,698	75
Tax loss carryforwards	229	152	207	2
Other	24,407	24,011	23,415	249
Gross deferred tax assets	167,271	152,993	135,499	1,706
Valuation allowance	(6,270)	(6,279)	(5,444)	(63)
Total deferred tax assets	161,000	146,714	130,055	1,642
Deferred tax liabilities:				
Unrealized holding gain on securities	(561)	(2,892)	(5,702)	(5)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(13,092)	(12,883)	(11,313)	(133)
Gain on valuation of assets of consolidated subsidiaries	(1,443)	(1,443)	(1,443)	(14)
Other	(807)	(661)	(530)	(8)
Total deferred tax liabilities	(15,905)	(17,881)	(18,989)	(162)
Deferred tax assets, net	¥145,095	¥128,832	¥111,065	\$1,480

## 14. LEASES

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the Company or its consolidated subsidiaries are accounted for in the same manner as operating leases.

Due to the adoption of the new accounting standards including the "Accounting Standard for Lease Transactions" (ASBJ Statement

No. 13 revised by the ASBJ on March 30, 2007), real estate lease transactions were included in the following tables at March 31, 2009. As a result, the amounts increased significantly compared with those at March 31, 2008.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased assets as of March 31, 2009, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions entered into by Company and its consolidated subsidiaries as lessees, which are currently accounted for as operating leases:

	2009			2008		
	Acquisition costs	Accumulated depreciation / amortization	Net book value	Acquisition costs	Accumulated depreciation / amortization	Net book value
Leased assets:						
Buildings and structures	¥2,403	¥ 179	¥2,224	¥ —	¥ —	¥ —
Machinery, equipment and vehicles	797	340	457	731	207	524
Tools, furniture and fixtures	2,088	1,028	1,059	2,049	829	1,220
Software included in other assets	141	115	25	141	87	54
	¥5,431	¥1,664	¥3,767	¥2,923	¥1,124	¥1,798

	2007		
	Acquisition costs	Accumulated depreciation / amortization	Net book value
Leased assets:			
Machinery, equipment and vehicles	¥ 448	¥ 128	¥ 319
Tools, furniture and fixtures	1,975	1,168	807
Software included in other assets	299	248	51
	¥2,723	¥1,544	¥1,178

	2009		
	Acquisition costs	Accumulated depreciation / amortization	Net book value
Leased assets:			
Buildings and structures	\$24	\$ 1	\$22
Machinery, equipment and vehicles	8	3	4
Tools, furniture and fixtures	21	10	10
Software included in other assets	1	1	0
	\$55	\$16	\$38

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2009, 2008 and 2007 totaled ¥646 million (\$6 million), ¥492 million and ¥565 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, 2009 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥ 564	\$ 5
2011 and thereafter	3,203	32
	¥3,767	\$38

Future minimum lease payments subsequent to March 31, 2009 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥ 485	\$ 4
2011 and thereafter	5,629	57
	¥6,115	\$62

Due to the adoption of the new accounting standards including the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 revised by the ASBJ on March 30, 2007), future minimum lease payments for real estate lease transactions were included in the above tables at March 31, 2009. As a result, the amounts of future minimum lease payments for noncancelable operating leases increased significantly compared with those at March 31, 2008.

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2009, 2008 and 2007 for finance lease transactions in which certain consolidated subsidiaries of the Company are the lessors and which are currently accounted for as operating leases:

	2009			2008		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	¥3,443	¥1,061	¥2,382	¥3,678	¥ 833	¥2,845
Tools, furniture and fixtures	3,744	2,098	1,646	4,328	1,877	2,451
	¥7,188	¥3,160	¥4,028	¥8,007	¥2,710	¥5,296

	2007		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	¥2,725	¥ 836	¥1,888
Tools, furniture and fixtures	4,245	1,479	2,765
	¥6,970	¥2,315	¥4,654

	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	\$35	\$10	\$24
Tools, furniture and fixtures	38	21	16
	\$73	\$32	\$41

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2009, 2008 and 2007 were ¥1,327 million (\$13 million), ¥1,363 million and ¥1,207 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2009, 2008 and 2007 computed by the straight-line method over the respective lease terms amounted to ¥1,229 million (\$12 million), ¥1,254 million and ¥1,087 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2009 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥1,127	\$11
2011 and thereafter	3,286	33
	¥4,414	\$45

Future minimum lease receipts subsequent to March 31, 2009 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2010	¥ 421	\$ 4
2011 and thereafter	3,220	32
	¥3,641	\$37

Due to the adoption of the accounting standards including the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 revised by the ASBJ on March 30, 2007), future minimum lease receipts for real estate lease transactions were included in the above tables at March 31, 2009. As a result, the amounts of future minimum lease receipts for noncancelable operating leases increased significantly compared with those at March 31, 2008.

## 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, 2009, 2008 and 2007 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Retirement benefit obligation	<b>¥(373,335)</b>	¥(377,161)	¥(376,375)	<b>\$(3,809)</b>
Plan assets at fair value	<b>8,879</b>	10,927	11,943	<b>90</b>
Unfunded retirement benefit obligation	<b>(364,455)</b>	(366,233)	(364,431)	<b>(3,718)</b>
Unrecognized net retirement benefit obligation at transition	<b>36,365</b>	67,824	99,283	<b>371</b>
Unrecognized actuarial loss	<b>37,536</b>	43,747	48,009	<b>383</b>
Unrecognized prior service cost	<b>(1,772)</b>	(2,004)	(2,235)	<b>(18)</b>
Net retirement benefit obligation	<b>(292,326)</b>	(256,666)	(219,375)	<b>(2,982)</b>
Prepaid pension cost	<b>448</b>	372	318	<b>4</b>
Accrued retirement benefits	<b>¥(292,774)</b>	¥(257,038)	¥(219,693)	<b>\$(2,987)</b>

The components of retirement benefit expenses for the years ended March 31, 2009, 2008 and 2007 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2009	2008	2007	2009
Service cost	<b>¥15,315</b>	¥15,656	¥15,852	<b>\$156</b>
Interest cost	<b>7,459</b>	7,450	7,932	<b>76</b>
Expected return on plan assets	<b>(234)</b>	(262)	(264)	<b>(2)</b>
Amortization of net retirement benefit obligation at transition	<b>31,458</b>	31,458	31,458	<b>321</b>
Amortization of actuarial loss	<b>7,573</b>	7,208	7,291	<b>77</b>
Amortization of prior service cost	<b>(231)</b>	2,582	1,975	<b>(2)</b>
	<b>¥61,341</b>	¥64,093	¥64,245	<b>\$625</b>

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

	2009	2008	2007
Discount rate	<b>Principally 2.0%</b>	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	<b>Principally 2.5%</b>	Principally 2.5%	Principally 2.5%

## 16. CONTINGENT LIABILITIES

At March 31, 2009, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥8,581 million (\$87 million).

The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for a train accident on the Fukuchiyama Line, which occurred on April 25, 2005, 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 (\$115 million) at March 31, 2009, 2008 and 2007.

## Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

				Number of shares
	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock	2,000,000	—	—	<b>2,000,000</b>
Treasury stock	18,365	45,219	—	<b>63,584</b>

				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, 2009, 2008 and 2007 and for the years then ended were as follows:

				U.S. dollars
	2009	2008	Yen 2007	2009
Net assets	<b>¥339,113.24</b>	¥322,294.60	¥303,906.52	<b>\$3,460</b>
Net income	<b>27,729.03</b>	28,954.78	28,415.07	<b>282</b>
Cash dividends	<b>7,000.00</b>	6,000.00	6,000.00	<b>71</b>

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, 2009, 2008 and 2007 since the Company had no potentially dilutive stock at March 31, 2009, 2008 and 2007.

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, 2009, 2008 and 2007 is outlined as follows:

	Millions of yen						
	2009						
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and eliminations	Consolidated
<b>I. Operating revenues and income:</b>							
Operating revenues from third parties	¥ 856,184	¥215,371	¥ 71,140	¥132,612	¥1,275,308	¥ —	¥1,275,308
Intersegment operating revenues and transfers	16,439	44,974	13,073	168,335	242,823	(242,823)	—
Operating revenues	872,624	260,345	84,213	300,947	1,518,131	(242,823)	1,275,308
Operating expenses	783,500	255,568	61,595	294,220	1,394,884	(242,095)	1,152,789
Operating income	¥ 89,124	¥ 4,776	¥ 22,618	¥ 6,727	¥ 123,246	¥ (727)	¥ 122,519
<b>II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:</b>							
Total assets	¥1,831,341	¥ 99,729	¥306,405	¥255,672	¥2,493,150	¥ (31,261)	¥2,461,889
Depreciation and amortization	115,792	3,317	11,334	6,564	137,009	—	137,009
Loss on impairment of fixed assets	51	—	—	—	51	—	51
Capital expenditures	160,407	2,522	26,544	8,320	197,793	—	197,793

	Millions of yen						
	2008						
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and eliminations	Consolidated
<b>I. Operating revenues and income:</b>							
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
<b>II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:</b>							
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
<b>I. Operating revenues and income:</b>							
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
<b>II. Total assets, depreciation and amortization and capital expenditures:</b>							
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 U.S. dollars

2009

	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and eliminations	Consolidated
<b>I. Operating revenues and income:</b>							
Operating revenues from third parties	\$ 8,736	\$2,197	\$ 725	\$1,353	\$13,013	\$ —	\$13,013
Intersegment operating revenues and transfers	167	458	133	1,717	2,477	(2,477)	—
Operating revenues	8,904	2,656	859	3,070	15,491	(2,477)	13,013
Operating expenses	7,994	2,607	628	3,002	14,233	(2,470)	11,763
Operating income	\$ 909	\$ 48	\$ 230	\$ 68	\$ 1,257	\$ (7)	\$ 1,250
<b>II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:</b>							
Total assets	\$18,687	\$1,017	\$3,126	\$2,608	\$25,440	\$ (318)	\$25,121
Depreciation and amortization	1,181	33	115	66	1,398	—	1,398
Loss on impairment of fixed assets	0	—	—	—	0	—	0
Capital expenditures	1,636	25	270	84	2,018	—	2,018

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 was 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, ¥86 million, ¥332 million and ¥205

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 18, 2009, the Company determined to issue bonds on May 15, 2009. Details of the bond issuance are as follows:

Description	The 20th Series of West Japan Railway Bonds
Issuance date	May 22, 2009
Total issuance amount	¥25,000 million (\$255 million)
Issue price	¥100 (\$1.02) with a face value of ¥100 (\$1.02)
Annual interest rate	1.603%
Type	Unsecured
Maturity	May 22, 2019
Usage of funds	Repayment of long-term payables, loans and redemption of bonds

Description	The 21th Series of West Japan Railway Bonds
Issuance date	May 22, 2009
Total issuance amount	¥15,000 million (\$153 million)
Issue price	¥100 (\$1.02) with a face value of ¥100 (\$1.02)
Annual interest rate	2.247%
Type	Unsecured
Maturity	March 21, 2029
Usage of funds	Repayment of long-term payables, loans and redemption of bonds

(2) At a meeting held on May 18, 2009, the Board of Directors of the Company proposed the following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, and which is to be approved at a meeting of the shareholders of the Company to be held on June 23, 2009:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥3,500 = U.S.\$35 per share)	¥6,780	\$69

## 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, 2009, 2008 and 2007, 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, 2009, 2008 and 2007, 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 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, 2009 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 LLC*

Osaka, Japan  
June 22, 2009

Ernst & Young ShinNihon