# FINANCIAL SECTION

# Management's Discussion and Analysis of Operations

Consolidated Basis

## RESULTS OF OPERATIONS

In fiscal 2010, ended March 31, 2010, operating revenues declined 6.7% year on year, to ¥1,190.1 billion, marking the second consecutive year of decline. In the Transportation Operations segment, although we continued to implement measures to increase convenience, including timetable revisions and the promotion of the Express Reservation system, a range of factors contributed to reduced usage of both Shinkansen and conventional lines and consequently a fall in operating revenues for the segment. Such factors included a slowdown in the domestic economy, a substantial reduction in expressway tolls, and the impact of the spread of a new influenza virus. Operating revenues decreased in the Sales of Goods and Food Services segment, the Real Estate Business segment, and the Other Businesses segment.

Despite the Group's efforts to reduce operating expenses, the impact of lower operating revenues led to a 37.5% decrease in operating income, to ¥76.5 billion, marking a second consecutive year of decline.

Although interest expense decreased, recurring profit declined 49.3%, to ¥48.1 billion, falling for the second year in a row. Net financial expenses improved 1.0%, to ¥33.6 billion.

Net income declined 54.4%, to ¥24.8 billion, marking the second consecutive year of decrease. Factors contributing to this decline included the recognition of loss on impairment of fixed assets at subsidiaries and the booking of expenses related to earthquake resistance reinforcement works.

## FACTORS AFFECTING RESULTS OF OPERATIONS

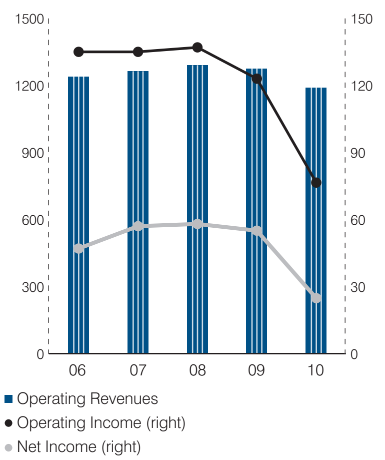
### Revenues

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 consequently is affected by numerous factors including competition from other modes of transportation, such as airlines, competition from rival railway companies, economic conditions, and the falling birthrate and aging population. Revenue from the Sanyo Shinkansen Line is mainly affected by the number of business and leisure passengers using the line. Such factors as the state of the economy and competition with domestic airlines may affect the number of such passengers. A large proportion of revenues from JR-West's Urban Network are derived from passengers commuting to and from work or school. Hence, these revenues are relatively unaffected by the economic cycle. However, the Group anticipates an impact on these revenues from demographic changes, including the declining birthrate, an aging population, and urbanization. Within JR-West's Other Conventional Lines, revenue from passengers traveling between cities is affected by such factors as the economic cycle and competition with intercity bus services and private automobiles. Revenue from local lines is affected by such factors as competition with private automobiles, local economic conditions, and demographic trends.

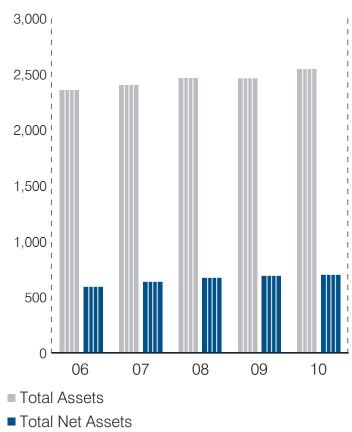
The Sales of Goods and Food Services segment's revenues primarily consist of income from department store businesses, merchandise sales, and restaurant operations. Revenue in this segment is influenced by economic conditions, and competition from other department stores, retailers, and restaurants. Because businesses in this segment are operated at many stations and in the 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 as a result tenants prefer offices that are conveniently located either on station premises or in the surrounding areas. The Group's

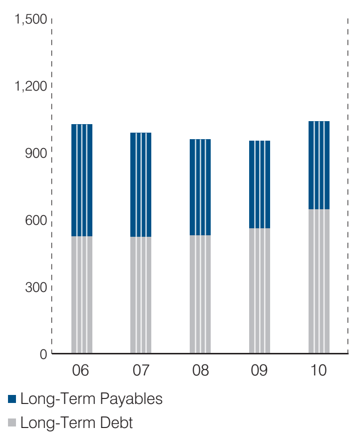
**OPERATING RESULTS**
Billions of yen




**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.

real estate leasing contracts mainly comprise fixed-rental leases and leases that specify a percentage of the tenant's sales as the rent fee. Consequently, revenues in the Real Estate Business segment are affected by fluctuations in tenant sales. Attracting popular stores to become tenants is necessary not only to bolster percentage-of-sales revenues but is also crucial for increasing the customer drawing power of the Group's stations and shopping centers. The refurbishment and renewal of stores is also a key factor in improving customer drawing power.

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

### Expenses

Personnel costs declined ¥3.3 billion compared with the previous fiscal year, to ¥265.2 billion. This result reflected the Group's efforts to reduce costs through an overhaul of its operational system.

In the area of non-personnel costs, the characteristics of railway operations include (i) the ownership of a large amount of plant and equipment and a high ratio of costs related to their maintenance, which is necessary to ensure safety; and (ii) a high proportion of fixed costs, which are not linked to revenues. For these reasons, the JR-West Group 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 Stations. As a result, for the enhancement of safety, we anticipate that the Group will need to incur a certain level of costs.

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 in the fiscal year under review.

Among other expenses, interest expense is a major factor. In the fiscal year under review, the JR-West Group's total interest expense declined ¥0.2 billion, to ¥34.3 billion. This decrease was attributable to an improvement in the interest rate payable on Group debt through the redemption of relatively high-interest Shinkansen debt and the procurement of funds at low interest rates.

## LIQUIDITY AND CAPITAL SOURCES

### Cash Flows

Net cash provided by operating activities decreased ¥17.5 billion, to ¥161.3 billion. This result principally reflected a decrease in income before income taxes and minority interests.

Net cash used in investing activities increased ¥36.1 billion, to ¥208.7 billion. This increase was mainly attributable to higher purchases of property, plant and equipment.

Net cash provided by financing activities amounted to ¥54.6 billion. The most significant change was an increase in proceeds from issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2010 increased ¥9.9 billion from the end of the previous fiscal year, to ¥51.0 billion.

### Capital Demand and Capital Expenditures

JR-West made capital expenditures totaling ¥246.3 billion in fiscal 2010, of which the Transportation Operations segment accounted for ¥198.3 billion, the Sales of Goods and Food Services segment ¥4.2 billion, the Real Estate Business segment ¥37.5 billion, and the Other Businesses segment ¥6.1 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 billion at this point, with completion scheduled in spring 2011.

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

### Liquidity and Financing

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

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

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

# 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 June 24, 2010. 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 JR passenger railway companies operating on Japan's main island of Honshu, hereinafter the "JR 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 JR 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 the JR passenger railway companies in Honshu and any operators that run all or part of their railway business as a result of assignations, mergers, divisions or successions on or after the date of enactment, as designated by the MLIT (hereinafter, "new companies"). 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 companies 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:

(a) 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

(b) 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

(c) 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 JR 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

(a) 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, they anticipate they 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.

(b) The Company strives to promote efficient business management to secure profits and to progress measures toward rationalization. However, the Company considers that the fair level of profit should be at a level that enables it to fund dividend payments to its shareholders, future capital investment, and measures to strengthen its financial structure, on the assumption that it makes such efforts.

(c) 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:

(a) 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.

(b) 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, to the capital invested in the railway operations. The calculation of total cost is as follows:

total cost = operating cost[1] + 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[2]
- operational return rate = equity ratio[3] x return rate on equity[4] + borrowed capital ratio[3] x return rate on borrowed capital[4]

1 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.
2 Working capital = operating costs and certain stores
3 Equity ratio, 30%; Borrowed capital ratio, 70%
4 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 (JRTT), 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 five segments of three Shinkansen lines
- 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 cost burden by JR companies would be usage fees and other charges within the range of their 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 from the JRTT, of which part of its financial resource is provided by JR-East, JR-Central, and JR-West as payments for the purchase of existing Shinkansen lines, 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 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 operational plan and fare structure for the services. 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 Company shall 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 BIRTHRATE 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 long standing 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 subsequently 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. 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, buses, and automobiles. In particular, the Company faces extremely severe competition from airline companies due to the heightened convenience of traveling by air as a result 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 the convenience for customers. It has enhanced its provision of high-speed transportation services by launching the new N700 Series Shinkansen rolling stock, increasing departures of its Nozomi Shinkansen services, and launching the EX-IC Service on the Sanyo Shinkansen Line. 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 in March 2010, increasing the frequency of rapid service trains on the Sagano Line accompanying completion of the construction of a double-tracked line between Kyoto and Sonobe, and launching a new series of rolling stock.

In addition, it has been heightening the 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. In fiscal 2010, owing to such factors as the Osaka Station Development Project shifting into full swing, capital expenditures increased. As a result, consolidated long-term debt has entered a temporary upward phase. In fiscal 2011, the Company anticipates a similar increase. Consolidated long-term debt at March 31, 2010, stood at ¥1,038.9 billion (including the current portion thereof), an increase of 9.0% compared with the previous fiscal year-end. Interest payments for the years ended March 31, 2008, 2009, and 2010, were ¥35.4 billion, ¥34.5 billion, and ¥34.3 billion, respectively, thereby maintaining a constant level.

The Group will continue to pay close attention to its levels of long-term debt, 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: Between Shin-Osaka Station, Tokaido Main Line and 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 billion
(f) Planned construction period: Fiscal 1998 to fiscal 2019
(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.

**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. 210,000$m^2$; excluding planned car parking buildings

Uses: Department store, approx. 90,000$m^2$; specialty stores, approx. 40,000$m^2$; offices, etc., approx. 45,000$m^2$; cinema complex, approx. 10,000$m^2$; station facilities, etc.

(d) ACTY Osaka Building expansion

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

Total floor area: Approx. 35,000$m^2$

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 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)

c. Total Project Costs (for all Group companies)

Approx. ¥210 billion[1]

- Osaka Station renovations, New North Building development project: Approx. ¥190 billion
- ACTY Osaka Building expansion: Approx. ¥20 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 business, and other businesses. However, if the project does not 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.

1 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 rapidly implementing 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 with financial institutions that enables it to raise capital according to predetermined conditions 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 subject 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 regulations or is subject to investigations by such regulatory authorities or in some situations, to any sanction, the public's trust of the JR-West Group may be undermined and, moreover, costs may be incurred to take measures to address the situation. Such a situation may have an impact on the Group's results of operations.

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.

On November 18, 2009, the Company submitted to the MLIT the results of the fact-finding inquiries and remediation measures, including preventive measures, obtained from both the Special Committee on Compliance, a body comprised of third-party experts, and its own internal team reporting to the President. The Company has also implemented measures to prevent a recurrence of similar problems and strengthen its compliance system. Specifically, the Company has established the Corporate Ethics & Risk Management Department to integrate its functions to promote compliance and the Corporate Ethics Committee as an advisory body to the Board of Directors. The Company has also established the Ethics Office and the Public Interest Information Office to offer advice and act as contact points regarding compliance issues. In addition, a third-party consultation office has been newly established for the use of JR-West Group officers and employees who wish to discuss compliance-related matters.

### 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 Stations 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), Masao Yamazaki, on July 8, 2009. In addition, pursuant to the ruling of the Kobe No. 1 Committee for the Inquest of Prosecution, on April 23, 2010, designated attorneys indicted three former Presidents and Representative Directors of the Company—Masataka Ide, Shojiro Nan-ya, and Takeshi Kakiuchi. 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, 2010, 2009 and 2008

| | Millions of yen | | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 |
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash (Notes 3, 10 and 19) | **¥ 51,314** | ¥ 41,414 | ¥ 44,836 | **$ 551** |
| Notes and accounts receivable (Note 19): | | | | |
| Unconsolidated subsidiaries and affiliates | **2,103** | 1,974 | 2,423 | **22** |
| Trade | **80,846** | 83,753 | 90,834 | **869** |
| Less allowance for doubtful accounts | **(840)** | (597) | (335) | **(9)** |
| Inventories (Note 5) | **29,534** | 24,143 | 22,246 | **317** |
| Income taxes refundable (Note 13) | **641** | 340 | 108 | **6** |
| Deferred income taxes (Note 13) | **17,857** | 19,743 | 19,938 | **192** |
| Prepaid expenses and other current assets | **41,794** | 37,771 | 41,087 | **449** |
| **Total current assets** | **223,254** | 208,544 | 221,138 | **2,400** |
| **Investments:** | | | | |
| Unconsolidated subsidiaries and affiliates (Notes 6 and 19) | **48,462** | 49,249 | 42,920 | **521** |
| Other securities (Notes 4, 10 and 19) | **10,865** | 11,244 | 17,117 | **116** |
| **Total investments** | **59,327** | 60,494 | 60,038 | **637** |
| **Property, plant and equipment, at cost** (Notes 7, 8, 10, 11 and 20)**:** | | | | |
| Land | **658,809** | 657,643 | 657,469 | **7,083** |
| Buildings and structures | **2,832,430** | 2,777,425 | 2,730,404 | **30,456** |
| Machinery, equipment and vehicles | **1,170,282** | 1,126,245 | 1,102,962 | **12,583** |
| Tools, furniture and fixtures | **112,297** | 105,539 | 97,320 | **1,207** |
| Construction in progress | **107,533** | 75,811 | 81,301 | **1,156** |
| | **4,881,352** | 4,742,665 | 4,669,458 | **52,487** |
| Less accumulated depreciation | **(2,809,076)** | (2,721,154) | (2,640,818) | **(30,205)** |
| **Property, plant and equipment, net** | **2,072,276** | 2,021,511 | 2,028,639 | **22,282** |
| **Deferred income taxes** (Note 13) | **139,030** | 125,527 | 109,035 | **1,494** |
| **Other assets** | **52,496** | 45,811 | 43,978 | **564** |
| **Total assets** (Note 21) | **¥ 2,546,384** | ¥ 2,461,889 | ¥ 2,462,831 | **$ 27,380** |

See accompanying notes to consolidated financial statements.

| | Millions of yen 2010 | Millions of yen 2009 | Millions of yen 2008 | Millions of U.S. dollars (Note 1) 2010 |
|---|---|---|---|---|
| LIABILITIES AND NET ASSETS | | | | |
| **Current liabilities:** | | | | |
| Short-term loans (Notes 9 and 19) | ¥ **12,932** | ¥ 28,807 | ¥ 13,630 | $ **139** |
| Current portion of long-term debt (Notes 9, 10 and 19) | **34,454** | 63,473 | 87,979 | **370** |
| Current portion of long-term payables (Notes 11 and 19) | **30,051** | 33,503 | 34,630 | **323** |
| Notes and accounts payable (Note 19): | | | | |
| Unconsolidated subsidiaries and affiliates | **5,678** | 2,630 | 2,901 | **61** |
| Trade | **144,359** | 146,492 | 171,676 | **1,552** |
| Prepaid railway fares received (Note 19) | **31,450** | 31,510 | 31,260 | **338** |
| Deposits and advances received (Note 19) | **87,211** | 101,149 | 127,306 | **937** |
| Accrued expenses | **60,105** | 60,224 | 61,756 | **646** |
| Accrued income taxes (Note 13) | **11,877** | 24,709 | 35,369 | **127** |
| Allowance for customer point programs | **580** | 563 | 670 | **6** |
| Other current liabilities (Note 10) | **9,500** | 16,299 | 11,514 | **102** |
| **Total current liabilities** | **428,201** | 509,365 | 578,698 | **4,604** |
| | | | | |
| **Long-term debt** (Notes 9, 10, 19 and 22(1)) | **652,160** | 500,698 | 441,495 | **7,012** |
| **Long-term payables** (Notes 11 and 19) | **329,696** | 359,713 | 393,157 | **3,545** |
| **Accrued retirement benefits** (Note 15) | **324,801** | 292,774 | 257,038 | **3,492** |
| **Allowance for antiseismic reinforcement measures** | **—** | — | 2,222 | **—** |
| **Allowance for environmental safety measures** | **9,039** | 10,193 | 11,466 | **97** |
| **Allowance for unredeemed gift tickets** | **2,715** | 2,808 | 2,667 | **29** |
| **Deferred income taxes** (Note 13) | **213** | 176 | 141 | **2** |
| **Other long-term liabilities** | **97,413** | 96,555 | 88,748 | **1,047** |
| **Total long-term liabilities** | **1,416,040** | 1,262,920 | 1,213,294 | **15,226** |
| | | | | |
| **Contingent liabilities** (Note 16) | | | | |
| | | | | |
| **Net assets:** | | | | |
| Shareholders' equity (Note 17): | | | | |
| Common stock: | | | | |
| Authorized – 8,000,000 shares | | | | |
| Issued and outstanding – 2,000,000 shares | **100,000** | 100,000 | 100,000 | **1,075** |
| Capital surplus | **55,000** | 55,000 | 55,000 | **591** |
| Retained earnings (Note 22(2)) | **543,323** | 531,236 | 489,366 | **5,842** |
| Less treasury stock, at cost | **(30,343)** | (30,343) | (10,343) | **(326)** |
| Total shareholders' equity | **667,980** | 655,893 | 634,022 | **7,182** |
| Valuation and translation adjustments: | | | | |
| Net unrealized holding gain on securities (Note 4) | **1,292** | 1,004 | 4,552 | **13** |
| Net deferred (loss) gain on hedging instruments | **(108)** | (233) | 95 | **(1)** |
| Total valuation and translation adjustments | **1,183** | 770 | 4,647 | **12** |
| Minority interests | **32,977** | 32,938 | 32,167 | **354** |
| **Total net assets** | **702,141** | 689,602 | 670,838 | **7,549** |
| **Total liabilities and net assets** | **¥2,546,384** | ¥2,461,889 | ¥2,462,831 | **$27,380** |

# Consolidated Statements of Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 |
| **Operating revenues** (Note 21) | **¥1,190,135** | ¥1,275,308 | ¥1,290,190 | **$12,797** |
| **Operating expenses:** | | | | |
| Transportation, other services and cost of sales | **915,865** | 944,505 | 944,207 | **9,848** |
| Selling, general and administrative expenses (Note 12) | **197,739** | 208,283 | 208,569 | **2,126** |
| | **1,113,605** | 1,152,789 | 1,152,777 | **11,974** |
| **Operating income** (Note 21) | **76,530** | 122,519 | 137,413 | **822** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | **632** | 588 | 461 | **6** |
| Interest expense | **(34,309)** | (34,592) | (35,424) | **(368)** |
| Equity in earnings of affiliates | **807** | 986 | 1,298 | **8** |
| Amortization of prior service cost | **—** | — | (2,826) | **—** |
| Loss on impairment of fixed assets (Notes 8 and 21) | **(3,266)** | (51) | (4,103) | **(35)** |
| Provision of allowance for environmental safety measures | **—** | — | (4,400) | **—** |
| Other, net | **3,298** | 5,200 | 9,166 | **35** |
| | **(32,836)** | (27,868) | (35,828) | **(353)** |
| **Income before income taxes and minority interests** | **43,693** | 94,651 | 101,584 | **469** |
| **Income taxes** (Note 13)**:** | | | | |
| Current | **31,047** | 52,432 | 56,559 | **333** |
| Deferred | **(11,820)** | (13,621) | (14,737) | **(127)** |
| | **19,226** | 38,810 | 41,822 | **206** |
| **Income before minority interests** | **24,466** | 55,841 | 59,762 | **263** |
| **Minority interests** | **391** | (1,311) | (2,054) | **4** |
| **Net income** | **¥ 24,858** | ¥ 54,529 | ¥ 57,707 | **$ 267** |

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, 2010, 2009 and 2008

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, 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 | — | — | 54,529 | — | 54,529 | — | — | — | — | 54,529 |
| Cash dividends | — | — | (12,816) | — | (12,816) | — | — | — | — | (12,816) |
| Purchases of treasury stock | — | — | — | (19,999) | (19,999) | — | — | — | — | (19,999) |
| Decrease in retained earnings resulting from the addition of an affiliate under the equity method | — | — | (193) | — | (193) | — | — | — | — | (193) |
| Increase in retained earnings resulting from merger of an unconsolidated subsidiary | — | — | 351 | — | 351 | — | — | — | — | 351 |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (3,548) | (328) | (3,876) | 770 | (3,106) |
| Balance at March 31, 2009 | ¥100,000 | ¥55,000 | ¥531,236 | ¥(30,343) | ¥655,893 | ¥ 1,004 | ¥(233) | ¥ 770 | ¥ 32,938 | ¥ 689,602 |
| Net income for the year | **—** | **—** | **24,858** | **—** | **24,858** | **—** | **—** | **—** | **—** | **24,858** |
| Cash dividends | **—** | **—** | **(13,561)** | **—** | **(13,561)** | **—** | **—** | **—** | **—** | **(13,561)** |
| Increase in retained earnings resulting from merger of unconsolidated subsidiaries | **—** | **—** | **337** | **—** | **337** | **—** | **—** | **—** | **—** | **337** |
| Increase in retained earnings resulting from change in number of consolidated subsidiaries | **—** | **—** | **452** | **—** | **452** | **—** | **—** | **—** | **—** | **452** |
| Net changes in items other than shareholders' equity | **—** | **—** | **—** | **—** | **—** | **288** | **124** | **412** | **39** | **451** |
| **Balance at March 31, 2010** | **¥100,000** | **¥55,000** | **¥543,323** | **¥(30,343)** | **¥667,980** | **¥ 1,292** | **¥(108)** | **¥1,183** | **¥32,977** | **¥702,141** |

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, 2009 | $1,075 | $591 | $5,712 | $(326) | $7,052 | $10 | $(2) | $ 8 | $354 | $7,415 |
| Net income for the year | **—** | **—** | **267** | **—** | **267** | **—** | **—** | **—** | **—** | **267** |
| Cash dividends | **—** | **—** | **(145)** | **—** | **(145)** | **—** | **—** | **—** | **—** | **(145)** |
| Increase in retained earnings resulting from merger of unconsolidated subsidiaries | **—** | **—** | **3** | **—** | **3** | **—** | **—** | **—** | **—** | **3** |
| Increase in retained earnings resulting from change in number of consolidated subsidiaries | **—** | **—** | **4** | **—** | **4** | **—** | **—** | **—** | **—** | **4** |
| Net changes in items other than shareholders' equity | **—** | **—** | **—** | **—** | **—** | **3** | **1** | **4** | **0** | **4** |
| Balance at March 31, 2010 | **$1,075** | **$591** | **$5,842** | **$(326)** | **$7,182** | **$13** | **$(1)** | **$12** | **$354** | **$7,549** |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| **Cash flows from operating activities** | | | | |
| Income before income taxes and minority interests | **¥ 43,693** | ¥ 94,651 | ¥ 101,584 | **$ 469** |
| Adjustments for: | | | | |
| Depreciation and amortization | **141,903** | 137,009 | 128,085 | **1,525** |
| Loss on impairment of fixed assets | **3,266** | 51 | 4,103 | **35** |
| Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment | **35,200** | 53,338 | 24,864 | **378** |
| Loss on disposal of property, plant and equipment | **8,873** | 7,394 | 11,111 | **95** |
| Increase in allowance for doubtful accounts | **140** | 520 | 275 | **1** |
| Increase in accrued retirement benefits | **31,959** | 35,729 | 37,344 | **343** |
| (Decrease) increase in accrued bonuses | **(1,259)** | (595) | 468 | **(13)** |
| Decrease in other accruals | **(1,302)** | (3,419) | (157) | **(14)** |
| Interest and dividend income | **(632)** | (588) | (461) | **(6)** |
| Interest expense | **34,309** | 34,592 | 35,424 | **368** |
| Equity in earnings of affiliates | **(807)** | (986) | (1,298) | **(8)** |
| Gain on contributions received for construction | **(35,961)** | (54,935) | (25,891) | **(386)** |
| Decrease in notes and accounts receivable | **4,623** | 8,095 | 4,235 | **49** |
| Increase in inventories | **(5,339)** | (1,826) | (2,866) | **(57)** |
| Decrease in notes and accounts payable | **(15,242)** | (33,736) | (21,504) | **(163)** |
| (Decrease) increase in accrued consumption taxes | **(4,466)** | 2,611 | (2,177) | **(48)** |
| Other | **400** | (1,568) | 5,606 | **4** |
| Subtotal | **239,359** | 276,338 | 298,747 | **2,573** |
| Interest and dividend income received | **619** | 648 | 472 | **6** |
| Interest paid | **(34,409)** | (34,827) | (35,564) | **(369)** |
| Income taxes paid | **(44,260)** | (63,318) | (41,472) | **(475)** |
| **Net cash provided by operating activities** | **161,309** | 178,840 | 222,183 | **1,734** |
| **Cash flows from investing activities** | | | | |
| Payments for time deposits with a maturity in excess of three months | **(35,230)** | (230) | (230) | **(378)** |
| Proceeds from time deposits with a maturity in excess of three months | **35,230** | 230 | 230 | **378** |
| Purchases of property, plant and equipment | **(246,183)** | (201,716) | (224,864) | **(2,647)** |
| Proceeds from sales of property, plant and equipment | **1,791** | 2,481 | 2,847 | **19** |
| Contributions received for construction | **37,855** | 40,928 | 45,027 | **407** |
| Increase in investments in securities | **(812)** | (12,023) | (1,198) | **(8)** |
| Proceeds from sales of investments in securities | **800** | 18 | 44 | **8** |
| Increase in long-term loans receivable | **(584)** | (828) | (641) | **(6)** |
| Collection of long-term loans receivable | **562** | 681 | 736 | **6** |
| Other | **(2,210)** | (2,192) | (1,232) | **(23)** |
| **Net cash used in investing activities** | **(208,782)** | (172,651) | (179,281) | **(2,244)** |
| **Cash flows from financing activities** | | | | |
| (Decrease) increase in short-term loans | **(16,493)** | 14,447 | 1,526 | **(177)** |
| Proceeds from long-term loans | **66,900** | 63,606 | 26,300 | **719** |
| Repayment of long-term loans | **(42,770)** | (43,060) | (49,383) | **(459)** |
| Proceeds from issuance of bonds | **115,000** | 55,000 | 29,982 | **1,236** |
| Redemption of bonds | **(20,000)** | (45,000) | — | **(215)** |
| Repayment of long-term payables | **(33,437)** | (34,539) | (36,431) | **(359)** |
| Purchases of treasury stock | **—** | (19,999) | (9,999) | **—** |
| Cash dividends paid to the Company's shareholders | **(13,552)** | (12,825) | (12,025) | **(145)** |
| Cash dividends paid to minority shareholders of consolidated subsidiaries | **(117)** | (126) | (112) | **(1)** |
| Other | **(907)** | 12,311 | (5,735) | **(9)** |
| **Net cash provided by (used in) financing activities** | **54,621** | (10,185) | (55,879) | **587** |
| **Net increase (decrease) in cash and cash equivalents** | **7,148** | (3,996) | (12,978) | **76** |
| **Cash and cash equivalents at beginning of year** | **41,184** | 44,606 | 57,584 | **442** |
| **Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries** | **2,690** | — | — | **28** |
| **Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries** | **61** | 574 | — | **0** |
| **Cash and cash equivalents at end of year** (Note 3) | **¥ 51,084** | ¥ 41,184 | ¥ 44,606 | **$ 549** |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

West Japan Railway Company and its consolidated subsidiaries
March 31, 2010

## 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 ¥93=U.S.$1.00, the exchange rate prevailing on March 31, 2010. 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.

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 the 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 programs

Allowance for customer point programs is provided, at a reasonably estimated amount, for expected expenditures corresponding to points granted to customers, which are expected to be utilized in following periods.

(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.

(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.

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.

(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) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

(17) Recognition of revenue derived from finance lease transactions as a lessor

Revenue from financial lease transactions and its related cost are recognized upon receipt of lease payments.

(18) 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) Recognition of revenues and costs of construction contracts

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("ASBJ") Statement No.15) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18), both issued on December 27, 2007. Under these accounting standards, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

The effect of this adoption on consolidated financial statements for the year ended March 31, 2010 was immaterial.

### (2) Change in method for valuing securities

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No.10 revised on March 10, 2008). Under this accounting standard, if future cash flows can be estimated for securities classified as other securities for which market prices are unavailable, they are determined at the present value of estimated future cash flows in the accompanying consolidated balance sheet as of March 31, 2010. Present value is calculated by discounting estimated future cash flows using the interest rate determined at Japanese government bond yields plus a credit spread premium.

The effect of this adoption on consolidated financial statements for the year ended March 31, 2010 was immaterial.

### (3) Partial amendments to accounting standard for retirement benefits (Part3)

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (ASBJ Statement No.19 issued on July 31, 2008).

The effect of this adoption on consolidated financial statements for the year ended March 31, 2010 was nil, because there was no actuarial gain or loss resulting from this adoption.

### (4) Leases

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries 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 these 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.

### (5) Related party transactions

Effective the year ended March 31, 2009, the Company adopted, "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 these new standards.

### (6) 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.

### (7) 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 has continuously engaged in enhancing safety subsequent to April 1, 2007 and will also steadily go ahead with various projects in the railway business, such as preparing for the expansion of Kyushu Shinkansen to Hakata station to commence through-service operations between Kyushu and Sanyo Shinkansen at the end of the year ending March 31, 2011. In addition, the Company will steadily go ahead with its plan for the renovation of Osaka station and the development of the New North Building. The Company will also continuously improve the stations in order to make them convenient, attractive and selectable by more users such as via the installation of barrier-free facilities, which are more convenient and functional, and making changes to the designs of existing stations resulting from the development of commercial facilities in the stations.

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

In addition, in accordance with the 2007 revision of 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.

### (8) 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.

## 3. CASH AND CASH EQUIVALENTS

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2010, 2009 and 2008 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 |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 |
| Cash | **¥51,314** | ¥41,414 | ¥44,836 | **$551** |
| Time deposits with original maturities in excess of three months included in cash | **(230)** | (230) | (230) | **(2)** |
| Cash and cash equivalents | **¥51,084** | ¥41,184 | ¥44,606 | **$549** |

## 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, 2010, 2009 and 2008. 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, 2010, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | | | | |
| Equity securities | **¥4,944** | **¥7,211** | **¥2,266** | ¥4,117 | ¥6,417 | ¥2,300 |
| Debt securities: | | | | | | |
| Government bonds | **37** | **37** | **0** | 32 | 33 | 0 |
| Corporate bonds | **50** | **51** | **1** | — | — | — |
| Subtotal | **5,031** | **7,300** | **2,269** | 4,150 | 6,450 | 2,300 |
| Securities whose carrying value does not exceed their acquisition costs: | | | | | | |
| Equity securities | **1,665** | **1,242** | **(422)** | 3,318 | 2,396 | (921) |
| Debt securities: | | | | | | |
| Government bonds | **—** | **—** | **—** | — | — | — |
| Subtotal | **1,665** | **1,242** | **(422)** | 3,318 | 2,396 | (921) |
| Total | **¥6,697** | **¥8,543** | **¥1,846** | ¥7,468 | ¥8,847 | ¥1,378 |

| | Millions of yen | | |
|---|---|---|---|
| | 2008 | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | ¥6,373 | ¥13,549 | ¥7,176 |
| Debt securities: | | | |
| Government bonds | 3 | 3 | 0 |
| Subtotal | 6,376 | 13,553 | 7,176 |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 716 | 644 | (72) |
| Debt securities: | | | |
| Government bonds | 25 | 25 | (0) |
| Subtotal | 742 | 669 | (72) |
| Total | ¥7,118 | ¥14,222 | ¥7,104 |

| | Millions of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Acquisition costs | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | **$53** | **$77** | **$24** |
| Debt securities: | | | |
| Government bonds | **0** | **0** | **0** |
| Corporate bonds | **0** | **0** | **0** |
| Subtotal | **54** | **78** | **24** |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | **17** | **13** | **(4)** |
| Debt securities: | | | |
| Government bonds | **—** | **—** | **—** |
| Subtotal | **17** | **13** | **(4)** |
| Total | **$72** | **$91** | **$19** |

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

| | Millions of yen | |
|---|---|---|
| | 2009 | 2008 |
| Unlisted equity securities | ¥2,276 | ¥2,809 |
| Other | 120 | 85 |
| | ¥2,397 | ¥2,895 |

## 5. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

| | | Millions of yen | Millions of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Merchandise and real estate for sale | **¥ 5,133** | ¥ 5,774 | **$ 55** |
| Contracts in process | **12,106** | 7,367 | **130** |
| Rails, materials and supplies | **12,295** | 11,001 | **132** |
| | **¥29,534** | ¥24,143 | **$317** |

## 6. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates at March 31, 2010, 2009 and 2008 consisted of the following:

| | | | Millions of yen | Millions of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Investments in: | | | | |
| Unconsolidated subsidiaries | **¥11,040** | ¥12,818 | ¥ 7,310 | **$118** |
| Affiliates | **37,421** | 36,430 | 35,609 | **402** |
| | **¥48,462** | ¥49,249 | ¥42,920 | **$521** |

## 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, 2010, 2009 and 2008 totaled ¥35,200 million ($378 million), ¥53,338 million and ¥24,864 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2010, 2009 and 2008 amounted to ¥603,841 million ($6,492 million), ¥574,718 million and ¥525,033 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, 2010, 2009 and 2008 totaled ¥6,124 million ($65 million), ¥10,166 million and ¥3,416 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, 2010, 2009 and 2008, the Company wrote down the following fixed assets to their respective recoverable value and recorded a related loss on impairment of fixed assets totaling ¥3,266 million ($35 million), ¥51 million and ¥4,103 million, respectively, in the accompanying consolidated statements of income for the years then ended.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | **2010** | 2008 | **2010** |
| Assets to be disposed of: | | | |
| Building and other, held in Kurashiki City, Okayama Prefecture | **¥2,367** | ¥ — | **$25** |
| Rolling stock held in Chikushi District, Fukuoka Prefecture—48 items | **—** | 2,225 | **—** |
| Idle assets: | | | |
| Land mainly held in Kobe City, Hyogo Prefecture—29,000 m$^2$ | **—** | 1,878 | **—** |
| Other assets: | | | |
| Buildings, land and other, held in Kobe City, Hyogo Prefecture | **898** | — | **9** |
| Total | **¥3,266** | ¥4,103 | **$35** |

Detailed information on loss on impairment of fixed assets for the year ended March 31, 2009 in the amount of ¥51 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.

The recoverable value of other assets presented in the above table was measured primarily at value in use, which is determined at future cash flows discounted at 5%.

## 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, 2010, 2009 and 2008 ranged from 0.01% to 0.96%, from 0.26% to 1.16%, and from 0.66% to 1.20%, respectively.

Long-term debt at March 31, 2010, 2009 and 2008 is summarized as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2017 through 2019 | **¥110,000** | ¥130,000 | ¥175,000 | **$1,182** |
| Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.387% to 2.49%, due from 2013 through 2030 | **274,968** | 159,966 | 104,964 | **2,956** |
| Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.00% to 8.50%, due in installments from 2011 through 2021 | **61,832** | 55,063 | 63,956 | **664** |
| Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 1.10% to 2.36%, due in installments from 2011 through 2026 | **209,700** | 190,772 | 163,669 | **2,254** |
| Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2011 through 2019 | **5,180** | 5,810 | 6,460 | **55** |
| Finance lease obligations, at rates ranging from 0.00% to 3.05%, due in installments from 2011 through 2030 | **7,397** | 4,116 | — | **79** |
| Other | **17,536** | 18,442 | 15,425 | **188** |
| | **686,614** | 564,171 | 529,475 | **7,382** |
| Less current portion | **(34,454)** | (63,473) | (87,979) | **(370)** |
| | **¥652,160** | ¥500,698 | ¥441,495 | **$7,012** |

The aggregate annual maturities of long-term debt subsequent to March 31, 2010 are summarized as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥ 34,454 | $ 370 |
| 2012 | 45,787 | 492 |
| 2013 | 84,798 | 911 |
| 2014 | 37,992 | 408 |
| 2015 | 46,300 | 497 |
| 2016 and thereafter | 437,280 | 4,701 |
| | ¥686,614 | $7,382 |

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, 2010 and 2009 was as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Lines of credit | **¥100,000** | ¥100,000 | **$1,075** |
| Credit utilized | **—** | 15,000 | **—** |
| Available credit | **¥100,000** | ¥ 85,000 | **$1,075** |

## 10. PLEDGED ASSETS

Assets pledged at March 31, 2010 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 | 60 | 0 |
| Land | 190 | 2 |
| Buildings and structures, net | 18,831 | 202 |
| | ¥19,311 | $207 |

The indebtedness secured by such collateral at March 31, 2010 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 | ¥ 610 | $ 6 |
| Long-term loans included in long-term debt | 4,570 | 49 |
| Other current liabilities | 1,844 | 19 |
| | ¥7,024 | $75 |

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, 2010, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 |
| Unsecured payables to the Japan Railway Construction, Transport & Technology Agency: | | | | |
| Variable interest portion, due in installments from 2011 through 2017 | **¥164,521** | ¥196,877 | ¥230,372 | **$1,769** |
| Fixed interest portion at 6.35% and 6.55%, due in installments from 2011 through 2052 | **187,860** | 188,365 | 188,838 | **2,020** |
| Other | **7,366** | 7,974 | 8,576 | **79** |
| | **359,748** | 393,217 | 427,788 | **3,868** |
| Less current portion | **(30,051)** | (33,503) | (34,630) | **(323)** |
| | **¥329,696** | ¥359,713 | ¥393,157 | **$3,545** |

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

The variable interest rates for the years ended March 31, 2010, 2009 and 2008 were 4.15%, 4.21% and 4.28%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2010 are summarized as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥30,051 | $ 323 |
| 2012 | 39,167 | 421 |
| 2013 | 40,904 | 439 |
| 2014 | 39,746 | 427 |
| 2015 | 38,135 | 410 |
| 2016 and thereafter | 171,742 | 1,846 |
| | ¥359,748 | $3,868 |

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,480 million ($69 million), ¥7,349 million and ¥6,716 million for the years ended March 31, 2010, 2009 and 2008, 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, 2010, 2009 and 2008.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2010 as a percentage of income before income taxes and minority interests was as follows:

| | 2010 |
|---|---|
| Statutory tax rate | **40.69%** |
| Increase (decrease) in income taxes resulting from: | |
| Reversal of valuation allowance | **2.04** |
| Per capita portion of inhabitants' taxes | **1.64** |
| Permanent non-deductible expenses | **0.81** |
| Other | **(1.18)** |
| Effective tax rate | **44.00%** |

A reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2009, and 2008 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, 2010, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 |
| Deferred tax assets: | | | | |
| Accrued bonuses included in accrued expenses | **¥ 13,490** | ¥ 13,971 | ¥ 14,202 | **$ 145** |
| Accrued enterprise taxes included in accrued income taxes | **1,396** | 2,378 | 3,161 | **15** |
| Accrued retirement benefits | **131,952** | 118,930 | 104,403 | **1,418** |
| Unrealized gain on property, plant and equipment | **7,674** | 7,354 | 7,061 | **82** |
| Tax loss carryforwards | **1,570** | 229 | 152 | **16** |
| Other | **26,100** | 24,407 | 24,011 | **280** |
| Gross deferred tax assets | **182,186** | 167,271 | 152,993 | **1,958** |
| Valuation allowance | **(7,282)** | (6,270) | (6,279) | **(78)** |
| Total deferred tax assets | **174,903** | 161,000 | 146,714 | **1,880** |
| | | | | |
| Deferred tax liabilities: | | | | |
| Unrealized holding gain on securities | **(751)** | (561) | (2,892) | **(8)** |
| Contributions received for construction deducted from acquisition costs of property, plant and equipment | **(14,780)** | (13,092) | (12,883) | **(158)** |
| Gain on valuation of assets of consolidated subsidiaries | **(1,443)** | (1,443) | (1,443) | **(15)** |
| Other | **(1,253)** | (807) | (661) | **(13)** |
| Total deferred tax liabilities | **(18,229)** | (15,905) | (17,881) | **(196)** |
| Deferred tax assets, net | **¥156,674** | ¥145,095 | ¥128,832 | **$1,684** |

## 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, 2010, 2009 and 2008, 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 the Company and its consolidated subsidiaries as lessees, which are currently accounted for as operating leases:

Millions of yen

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Acquisition costs | Accumulated depreciation / amortization | Accumulated impairment loss | Net book value | Acquisition costs | Accumulated depreciation / amortization | Accumulated impairment loss | Net book value |
| Leased assets: | | | | | | | | |
| Buildings and structures | **¥2,403** | **¥ 266** | **¥ —** | **¥2,137** | ¥2,403 | ¥ 179 | ¥ — | ¥2,224 |
| Machinery, equipment and vehicles | **673** | **341** | **113** | **219** | 797 | 340 | — | 457 |
| Tools, furniture and fixtures | **1,806** | **1,032** | **—** | **773** | 2,088 | 1,028 | — | 1,059 |
| Software included in other assets | **118** | **104** | **—** | **13** | 141 | 115 | — | 25 |
| | **¥5,002** | **¥1,744** | **¥113** | **¥3,144** | ¥5,431 | ¥1,664 | ¥ — | ¥3,767 |

Millions of yen

| | 2008 | | | |
|---|---|---|---|---|
| | Acquisition costs | Accumulated depreciation / amortization | Accumulated impairment loss | Net book value |
| Leased assets: | | | | |
| Buildings and structures | ¥ — | ¥ — | ¥ — | ¥ — |
| Machinery, equipment and vehicles | 731 | 207 | — | 524 |
| Tools, furniture and fixtures | 2,049 | 829 | — | 1,220 |
| Software included in other assets | 141 | 87 | — | 54 |
| | ¥2,923 | ¥1,124 | ¥ — | ¥1,798 |

Millions of U.S. dollars

| | 2010 | | | |
|---|---|---|---|---|
| | Acquisition costs | Accumulated depreciation / amortization | Accumulated impairment loss | Net book value |
| Leased assets: | | | | |
| Buildings and structures | **$25** | **$ 2** | **$ —** | **$22** |
| Machinery, equipment and vehicles | **7** | **3** | **1** | **2** |
| Tools, furniture and fixtures | **19** | **11** | **—** | **8** |
| Software included in other assets | **1** | **1** | **—** | **0** |
| | **$53** | **$18** | **$ 1** | **$33** |

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2010, 2009 and 2008 totaled ¥557 million ($5 million), ¥646 million and ¥492 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. For the year ended March 31, 2010, loss on impairment of ¥113 million ($1 million) was recorded on leased assets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases and accumulated impairment losses on the leased assets are summarized as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥ 491 | $ 5 |
| 2012 and thereafter | 2,766 | 29 |
| | ¥3,257 | $35 |

Future minimum lease payments subsequent to March 31, 2010 for noncancelable operating leases were as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥ 993 | $ 10 |
| 2012 and thereafter | 11,742 | 126 |
| | ¥12,735 | $136 |

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2010, 2009 and 2008 for finance lease transactions in which certain consolidated subsidiaries of the Company are the lessors and which are currently accounted for as operating leases:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Acquisition costs | Accumulated depreciation | Net book value | Acquisition costs | Accumulated depreciation | Net book value |
| Leased assets: | | | | | | |
| Machinery, equipment and vehicles | **¥3,308** | **¥1,330** | **¥1,978** | ¥3,443 | ¥1,061 | ¥2,382 |
| Tools, furniture and fixtures | **2,766** | **1,807** | **959** | 3,744 | 2,098 | 1,646 |
| | **¥6,075** | **¥3,137** | **¥2,937** | ¥7,188 | ¥3,160 | ¥4,028 |

| | Millions of yen | | |
|---|---|---|---|
| | 2008 | | |
| | Acquisition costs | Accumulated depreciation | Net book value |
| Leased assets: | | | |
| Machinery, equipment and vehicles | ¥3,678 | ¥ 833 | ¥2,845 |
| Tools, furniture and fixtures | 4,328 | 1,877 | 2,451 |
| | ¥8,007 | ¥2,710 | ¥5,296 |

| | Millions of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Acquisition costs | Accumulated depreciation | Net book value |
| Leased assets: | | | |
| Machinery, equipment and vehicles | **$35** | **$14** | **$21** |
| Tools, furniture and fixtures | **29** | **19** | **10** |
| | **$65** | **$33** | **$31** |

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2010, 2009 and 2008 were ¥950 million ($10 million), ¥1,327 million and ¥1,363 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2010, 2009 and 2008 computed by the straight-line method over the respective lease terms amounted to ¥870 million ($9 million), ¥1,229 million and ¥1,254 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥ 931 | $10 |
| 2012 and thereafter | 2,292 | 24 |
| | ¥3,224 | $34 |

Future minimum lease receipts subsequent to March 31, 2010 for noncancelable operating leases were as follows:

| Year ending March 31, | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| 2011 | ¥ 469 | $ 5 |
| 2012 and thereafter | 3,564 | 38 |
| | ¥4,033 | $43 |

## 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, 2010, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Retirement benefit obligation | **¥(365,596)** | ¥(373,335) | ¥(377,161) | **$(3,931)** |
| Plan assets at fair value | **9,313** | 8,879 | 10,927 | **100** |
| Unfunded retirement benefit obligation | **(356,282)** | (364,455) | (366,233) | **(3,830)** |
| Unrecognized net retirement benefit obligation at transition | **4,906** | 36,365 | 67,824 | **52** |
| Unrecognized actuarial loss | **28,635** | 37,536 | 43,747 | **307** |
| Unrecognized prior service cost | **(1,541)** | (1,772) | (2,004) | **(16)** |
| Net retirement benefit obligation | **(324,281)** | (292,326) | (256,666) | **(3,486)** |
| Prepaid pension cost | **519** | 448 | 372 | **5** |
| Accrued retirement benefits | **¥(324,801)** | ¥(292,774) | ¥(257,038) | **$(3,492)** |

The components of retirement benefit expenses for the years ended March 31, 2010, 2009 and 2008 are outlined as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Service cost | **¥15,189** | ¥15,315 | ¥15,656 | **$163** |
| Interest cost | **7,391** | 7,459 | 7,450 | **79** |
| Expected return on plan assets | **(174)** | (234) | (262) | **(1)** |
| Amortization of net retirement benefit obligation at transition | **31,462** | 31,458 | 31,458 | **338** |
| Amortization of actuarial loss | **7,530** | 7,573 | 7,208 | **80** |
| Amortization of prior service cost | **82** | (231) | 2,582 | **0** |
| Expense recorded at certain consolidated subsidiaries on change in measurement of retirement benefit obligation from the simplified method to the principle method | **740** | — | — | **7** |
| | **¥62,220** | ¥61,341 | ¥64,093 | **$669** |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Discount rate | **Principally 2.0%** | Principally 2.0% | Principally 2.0% |
| Expected rate of return on plan assets | **Principally 2.5%** | Principally 2.5% | Principally 2.5% |

## 16. CONTINGENT LIABILITIES

At March 31, 2010, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥8,600 million ($92 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") 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 ($121 million) at March 31, 2010, 2009 and 2008.

*Common stock and treasury stock*

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

| | | | | Number of shares |
|---|---|---|---|---|
| | March 31, 2009 | Increase | Decrease | **March 31, 2010** |
| Common stock | 2,000,000 | — | — | **2,000,000** |
| Treasury stock | 63,584 | — | — | **63,584** |

| | | | | Number of shares |
|---|---|---|---|---|
| | March 31, 2008 | Increase | Decrease | March 31, 2009 |
| Common stock | 2,000,000 | — | — | 2,000,000 |
| Treasury stock | 18,365 | 45,219 | — | 63,584 |

| | | | | 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 |

## 18. AMOUNTS PER SHARE

Amounts per share at March 31, 2010, 2009 and 2008 and for the years then ended were as follows:

| | | | Yen | U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Net assets | **¥345,568.31** | ¥339,113.24 | ¥322,294.60 | **$3,715** |
| Net income | **12,837.31** | 27,729.03 | 28,954.78 | **138** |
| Cash dividends | **7,000.00** | 7,000.00 | 6,000.00 | **75** |

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, 2010, 2009 and 2008 since the Company had no potentially dilutive stock at March 31, 2010, 2009 and 2008.

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. FINANCIAL INSTRUMENTS

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries have applied “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on March 10, 2008) and “Guidance on Accounting Standard for Financial Instruments” (ASBJ Guidance No.19 issued on March 10, 2008).

### Overview

(1) Policy for financial instruments

The Company and its consolidated subsidiaries (collectively, the “Group”) raise funds mainly through bonds and bank borrowings mainly for the purpose of settlement of existing payables and capital investment. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term working capital mainly through short-term bonds. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. Investments in securities are exposed to market risk. Those securities are mainly composed of the shares of common stock of other companies with which the Group has business relationships, or affiliated companies.

Substantially all trade payables—trade notes and accounts payable and deposits and advances received—have payment due dates within one year. The Group is also exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies. However, regarding trade payables denominated in foreign currencies arising from organized foreign tours, forward foreign exchange contracts are principally arranged to reduce the risk. Bonds and bank borrowings are taken out principally for the purpose of settlement of existing payables and capital investments. The redemption dates of these long-term debts extend up to twenty-four years from March 31, 2010. Some of them have variable interest rates and are exposed to interest rate fluctuation risk. Long-term payables are mainly derived from the purchase of Sanyo Shinkansen’s facilities. These payables are settled by installments once every six months. The repayment dates of these payables extend up to forty-one years from March 31, 2010. Some of these payables have variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from trade payables denominated in foreign currencies.

Information regarding the method of hedge accounting is found in Note 1(18).

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from trade receivables, the Group monitors due dates and outstanding balances by individual customer. The Group is also making efforts to identify and mitigate risks arising from bad debts from customers who are having financial difficulties.

The Group enters into derivative transactions only with financial institutions which have a sound credit profile to mitigate counterparty risk. At the balance sheet date, the carrying values of the financial assets in the consolidated balance sheets represent the maximum credit risk exposures of the Group.

(b) Monitoring of market risk (the risk arising from fluctuations in foreign currency exchange rates, interest rates and others)

For trade payables denominated in foreign currencies, certain consolidated subsidiaries identify the foreign currency exchange risk for each currency on a monthly basis and enter into forward foreign exchange contracts to hedge such risk. For trade payables denominated in foreign currencies arising from forecasted transactions to occur within six months regarding organized foreign tours, forward foreign exchange contracts are principally arranged considering the actual results in the past and the circumstances of the tour reservations.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair values and relationships with the issuers.

For derivative transactions performed by certain consolidated subsidiaries, the basic policy is approved at a meeting once a half year in accordance with internal policy. In accordance with the approval, each accounting division enters into derivative transactions and reconciles outstanding balances with those of the counterparties. The control division of the Company monitors these risks based on the application from each operating division of each branch of certain consolidated subsidiaries. In addition, internal audit division of the Company periodically monitors them.

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on reports from each division of the Company and affiliated companies, the Company prepares and updates their cash flow plans on a timely basis to manage liquidity risk. In addition, the Company has the method of keeping the liquidity level stable to a certain extent by entering into commitment line contracts to enable the Company to raise funds in accordance with the policies determined in advance.

### (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since various variable factors are reflected in estimating the fair value, different factors could result in different fair values. In addition, the notional amounts of derivatives in the following "Estimated Fair Value of Financial Instruments" section are not necessarily indicative of the actual market risk involved in derivative transactions.

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to 2 in Note 19).

| | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2010 | | |
| | Carrying value | Estimated fair value | Difference | Carrying value | Estimated fair value | Difference |
| Assets: | | | | | | |
| Cash | ¥ 51,314 | ¥ 51,314 | ¥ — | $ 551 | $ 551 | $ — |
| Notes and accounts receivable | 14,282 | 14,282 | — | 153 | 153 | — |
| Accrued fare (included in notes and accounts receivables) | 22,714 | 22,714 | — | 244 | 244 | — |
| Other accounts receivable (included in notes and accounts receivables) | 42,038 | 42,038 | — | 452 | 452 | — |
| Investments in securities: | | | | | | |
| Other securities | 8,543 | 8,543 | — | 91 | 91 | — |
| Liabilities: | | | | | | |
| Short-term loans | (12,932) | (12,932) | — | (139) | (139) | — |
| Notes and accounts payable | (47,999) | (47,999) | — | (516) | (516) | — |
| Other accounts payable (included in notes and accounts payable and accrued expenses) | (102,385) | (102,385) | — | (1,100) | (1,100) | — |
| Accrued income taxes (included in accrued income taxes and accrued expenses) | (13,793) | (13,793) | — | (148) | (148) | — |
| Deposits (included in deposits and advances received) | (52,150) | (52,150) | — | (560) | (560) | — |
| Bonds | (384,968) | (404,502) | (19,534) | (4,139) | (4,349) | (210) |
| Long-term loans (including current portion of long-term loans) | (294,249) | (299,927) | (5,678) | (3,163) | (3,225) | (61) |
| Long-term payables for purchase of railway facilities (including current portion of long-term payables) | (359,494) | (491,197) | (131,702) | (3,865) | (5,281) | (1,416) |
| Other long-term payables(including current portion of long-term payables) | (253) | (271) | (18) | (2) | (2) | (0) |
| Derivative transactions which were accounted for by hedge accounting (included in prepaid expenses and other current assets) | (231) | (231) | — | (2) | (2) | — |

Notes: 1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

*Cash, trade notes and accounts receivable, accrued fare and other accounts receivable*
Since these items are settled in a short period of time, their carrying value approximates fair value.

*Investments in securities*
The fair value of stocks is determined based on quoted market prices. The fair value of debt securities is determined based on either quoted market prices or present value of the future cash flows discounted by the interest rate which is determined using the interest rate of national bonds plus a credit spread premium.

*Short-term loans, trade notes and accounts payable, deposits, accrued income taxes and other account payables*
Since these items are settled in a short period of time, their carrying value approximates fair value.

*Bonds (including current portion)*
The fair value of bonds is determined based on the quoted market price.

*Long-term borrowings and other long-term payables*
The fair value of long-term borrowings and long-term payables are determined based on the present value of the total amounts of principal and interest payment discounted at an interest rate to be applied if similar new borrowings were entered into.

*Long-term payables for purchase of railway facilities (including current portion)*
Long-term payables for purchase of railway facilities are monetary liabilities assumed under a special law, and it is difficult for the Company to raise funds again in the same manner. The fair value of such long-term payables are determined based on the present value of the total amounts of principal and interest payment discounted at an interest rate to be applied if similar new bonds were issued.

*Derivatives transactions*
The fair value of derivatives transactions is based on the prices obtained from financial institutions.

2 Financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Investments in securities | | |
| Unlisted stocks | ¥50,738 | $545 |
| Other | 44 | 0 |

Because no quoted market price is available and also the future cash flows cannot be estimated reasonably, it is extremely difficult to determine the fair value. Therefore, the above financial instruments are not included in amounts presented in the table in 1 in this note.

3 The redemption schedule for receivables and marketable securities with maturities at March 31, 2010 is as follows:

| | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | Due after five year through ten years | Due in one year or less | Due after one year through five years | Due after five years through ten years |
| Cash | **¥ 41,607** | **¥ —** | **¥ —** | **$ 447** | **$ —** | **$ —** |
| Notes and accounts receivable | **14,243** | **39** | **—** | **153** | **0** | **—** |
| Accrued fare (included in notes and accounts receivables) | **22,714** | **—** | **—** | **244** | **—** | **—** |
| Other accounts receivable (included in notes and accounts receivables) | **42,035** | **2** | **0** | **451** | **0** | **0** |
| Investments in securities | | | | | | |
| Other marketable securities with maturities (national government bonds) | **—** | **37** | **—** | **—** | **0** | **—** |
| Other marketable securities with maturities (corporate bonds) | **6** | **25** | **18** | **0** | **0** | **0** |
| Total | **¥120,606** | **¥103** | **¥19** | **$1,296** | **$ 1** | **$ 0** |

4 The redemption schedules for long-term debt and long-term payables are disclosed in Note 9 “Short-Term Loans and Long-Term Debt” and Note 11 “Long-Term Payables” in the Notes to Consolidated Financial Statements.

## 20. INVESTMENT AND RENTAL PROPERTIES

Effective the year ended March 31, 2010, the Company has adopted a new accounting standard for disclosures regarding fair value of investment and rental real estate properties and related implementation guidance.

The Company and certain consolidated subsidiaries own office buildings for lease, commercial facilities including lands and rental housing, mainly in Osaka Prefecture and other areas.

Rental income, net of related expenses relevant to these real estate properties amounted to ¥24,718 million ($265 million) for the year ended March 31, 2010. The rental income is recorded under operating revenues or other income and the rental expenses are recorded under operating expenses or other expenses.

The carrying value in the consolidated balance sheets and corresponding fair value of those properties are as follows:

| Millions of yen | | | | Millions of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|
| Carrying value | | | Fair value | Carrying value | | | Fair value |
| As of March 31, 2009 | Net change | As of March 31, 2010 | As of March 31, 2010 | As of March 31, 2009 | Net change | As of March 31, 2010 | As of March 31, 2010 |
| ¥100,214 | ¥10,896 | ¥111,110 | ¥203,145 | $ 1,077 | $ 117 | $ 1,194 | $ 2,184 |

Notes: 1 The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.
2 The components of net change in carrying value included increases mainly due to acquisitions of real estate properties in the amount of ¥17,337 million ($186 million) and decreases mainly due to depreciation in the amount of ¥4,900 million ($52 million).
3 The fair value of main properties is estimated in accordance with appraisal standards for valuing real estate. The fair value of the others is based on book value or valuation amount which reasonably reflects market value.

## 21. SEGMENT INFORMATION

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

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2010, 2009 and 2008 is outlined as follows:

Millions of yen

| 2010 | Transportation | Sales of goods and food services | Real estate business | Other | Total | Corporate and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **I. Operating revenues and income:** | | | | | | | |
| Operating revenues from third parties | **¥ 797,490** | **¥201,995** | **¥ 70,953** | **¥119,695** | **¥1,190,135** | **¥ —** | **¥1,190,135** |
| Intersegment operating revenues and transfers | **16,047** | **46,582** | **13,796** | **167,230** | **243,657** | **(243,657)** | **—** |
| Operating revenues | **813,538** | **248,578** | **84,749** | **286,925** | **1,433,792** | **(243,657)** | **1,190,135** |
| Operating expenses | **768,335** | **245,404** | **62,237** | **280,196** | **1,356,175** | **(242,569)** | **1,113,605** |
| Operating income | **¥ 45,202** | **¥ 3,174** | **¥ 22,511** | **¥ 6,729** | **¥ 77,617** | **¥ (1,087)** | **¥ 76,530** |
| **II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:** | | | | | | | |
| Total assets | **¥1,874,303** | **¥111,147** | **¥324,904** | **¥260,732** | **¥2,571,087** | **¥ (24,703)** | **¥2,546,384** |
| Depreciation and amortization | **120,107** | **5,169** | **11,640** | **4,986** | **141,903** | **—** | **141,903** |
| Loss on impairment of fixed assets | **—** | **169** | **713** | **2,384** | **3,266** | **—** | **3,266** |
| Capital expenditures | **198,386** | **4,255** | **37,524** | **6,140** | **246,308** | **—** | **246,308** |

Millions of yen

| 2009 | Transportation | Sales of goods and food services | Real estate business | Other | Total | Corporate and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **I. Operating revenues and income:** | | | | | | | |
| Operating revenues from third parties | ¥ 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 |
| **II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:** | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| **I. Operating revenues and income:** | | | | | | | |
| Operating revenues from third parties | ¥ 861,273 | ¥212,803 | ¥ 76,757 | ¥139,356 | ¥1,290,190 | ¥ — | ¥1,290,190 |
| Intersegment operating revenues and transfers | 16,577 | 42,772 | 13,883 | 165,640 | 238,873 | (238,873) | — |
| Operating revenues | 877,850 | 255,576 | 90,640 | 304,996 | 1,529,064 | (238,873) | 1,290,190 |
| Operating expenses | 780,371 | 250,305 | 65,994 | 293,959 | 1,390,631 | (237,853) | 1,152,777 |
| Operating income | ¥ 97,479 | ¥ 5,270 | ¥ 24,646 | ¥ 11,036 | ¥ 138,433 | ¥ (1,020) | ¥ 137,413 |
| **II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:** | | | | | | | |
| Total assets | ¥1,846,782 | ¥ 89,093 | ¥305,049 | ¥266,962 | ¥2,507,888 | ¥ (45,056) | ¥2,462,831 |
| Depreciation and amortization | 107,026 | 2,866 | 11,665 | 6,527 | 128,085 | — | 128,085 |
| Loss on impairment of fixed assets | 4,103 | — | — | — | 4,103 | — | 4,103 |
| Capital expenditures | 194,365 | 5,320 | 15,686 | 9,215 | 224,588 | — | 224,588 |

Millions of U.S. dollars

| 2010 | Transportation | Sales of goods and food services | Real estate business | Other | Total | Corporate and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **I. Operating revenues and income:** | | | | | | | |
| Operating revenues from third parties | **$ 8,575** | **$2,171** | **$ 762** | **$1,287** | **$12,797** | **$ —** | **$12,797** |
| Intersegment operating revenues and transfers | **172** | **500** | **148** | **1,798** | **2,619** | **(2,619)** | **—** |
| Operating revenues | **8,747** | **2,672** | **911** | **3,085** | **15,417** | **(2,619)** | **12,797** |
| Operating expenses | **8,261** | **2,638** | **669** | **3,012** | **14,582** | **(2,608)** | **11,974** |
| Operating income | **$ 486** | **$ 34** | **$ 242** | **$ 72** | **$ 834** | **$ (11)** | **$ 822** |
| **II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:** | | | | | | | |
| Total assets | **$20,153** | **$1,195** | **$3,493** | **$2,803** | **$27,646** | **$ (265)** | **$27,380** |
| Depreciation and amortization | **1,291** | **55** | **125** | **53** | **1,525** | **—** | **1,525** |
| Loss on impairment of fixed assets | **—** | **1** | **7** | **25** | **35** | **—** | **35** |
| Capital expenditures | **2,133** | **45** | **403** | **66** | **2,648** | **—** | **2,648** |

As described in Note 2(7), 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.

On April 1, 2009, one consolidated subsidiary split up some businesses and was merged with another consolidated subsidiary. As a result of a review of the business segment considering the character of the business and actual control structure, leasing business operated by merging consolidated subsidiary and included in “Other” segment was changed to “Sales of goods and food services” segment for the year ended March 31, 2010.

The business segment information of the Company and its consolidated subsidiaries conformed with current classifications for the year ended March 31, 2009 is outlined as follows:

Millions of yen

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Transportation | Sales of goods and food services | Real estate business | Other | Total | Corporate and eliminations | Consolidated |
| **I. Operating revenues and income:** | | | | | | | |
| Operating revenues from third parties | ¥ 856,184 | ¥217,306 | ¥ 71,140 | ¥130,676 | ¥1,275,308 | ¥ — | ¥1,275,308 |
| Intersegment operating revenues and transfers | 16,439 | 46,502 | 13,073 | 167,090 | 243,106 | (243,106) | — |
| Operating revenues | 872,624 | 263,808 | 84,213 | 297,767 | 1,518,414 | (243,106) | 1,275,308 |
| Operating expenses | 783,500 | 258,917 | 61,595 | 291,154 | 1,395,167 | (242,378) | 1,152,789 |
| Operating income | ¥ 89,124 | ¥ 4,891 | ¥ 22,618 | ¥ 6,612 | ¥ 123,247 | ¥ (727) | ¥ 122,519 |
| **II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:** | | | | | | | |
| Total assets | ¥1,831,341 | ¥110,688 | ¥306,405 | ¥259,180 | ¥2,507,616 | ¥ (45,727) | ¥2,461,889 |
| Depreciation and amortization | 115,792 | 5,327 | 11,334 | 4,555 | 137,009 | — | 137,009 |
| Loss on impairment of fixed assets | 51 | — | — | — | 51 | — | 51 |
| Capital expenditures | 160,407 | 2,971 | 26,544 | 7,870 | 197,793 | — | 197,793 |

## 22. SUBSEQUENT EVENTS

(1) Based on a resolution approved at a meeting of the Board of Directors held on March 24, 2010, the Company determined to issue bonds on June 4, 2010. Details of the bond issuance are as follows:

| Description | The 27th Series of West Japan Railway Bonds |
|---|---|
| Issuance date | June 11, 2010 |
| Total issuance amount | ¥15,000 million ($161 million) |
| Issue price | ¥100 ($1.07) with a face value of ¥100 ($1.07) |
| Annual interest rate | 1.360% |
| Type | Unsecured |
| Maturity | June 11, 2020 |
| Usage of funds | Repayment of long-term payables and loans |

| Description | The 28th Series of West Japan Railway Bonds |
|---|---|
| Issuance date | June 11, 2010 |
| Total issuance amount | ¥15,000 million ($161 million) |
| Issue price | ¥100 ($1.07) with a face value of ¥100 ($1.07) |
| Annual interest rate | 2.111% |
| Type | Unsecured |
| Maturity | June 11, 2030 |
| Usage of funds | Repayment of long-term payables and loans |

(2) At a meeting held on May 18, 2010, 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, 2010, and which is to be approved at a meeting of the shareholders of the Company to be held on June 23, 2010:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Cash dividends (¥3,500 = U.S.$37 per share) | ¥6,780 | $72 |

# 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, 2010, 2009 and 2008, 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, 2010, 2009 and 2008, 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 (7) 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, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

Osaka, Japan
June 22, 2010

Ernst & Young ShinNihon LLC