

# West Japan Railway Company

## Non-Consolidated Balance Sheets

As of March 31, 2012, 2011 and 2010

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2012	2011	2010	2012
<b>Assets</b>				
Current assets:				
Cash	¥ 38,875	¥ 69,829	¥ 41,781	\$ 474
Accounts receivable	58,813	57,713	53,497	717
Less allowance for doubtful accounts	(602)	(483)	(447)	(7)
Inventories	12,274	10,188	10,411	149
Deferred income taxes (Note 7)	12,993	13,159	12,686	158
Prepaid expenses and other current assets (Note 3)	60,366	55,860	39,571	736
Total current assets	182,722	206,267	157,501	2,228
Investments and advances:				
Subsidiaries and affiliates (Note 3)	222,379	204,986	187,839	2,711
Other securities	8,633	8,316	9,944	105
Total investments	231,012	213,303	197,784	2,817
Property, plant and equipment, at cost (Notes 4, 5 and 6):				
Railway	4,267,194	4,203,686	4,078,167	52,038
Other operations	228,438	209,956	209,199	2,785
Construction in progress	38,536	74,923	65,526	469
	4,534,169	4,488,565	4,352,894	55,294
Less accumulated depreciation	(2,710,037)	(2,657,674)	(2,573,134)	(33,049)
Property, plant and equipment, net	1,824,131	1,830,890	1,779,760	22,245
Deferred income taxes (Note 7)	105,500	120,944	119,965	1,286
Other assets	38,407	34,344	31,938	468
Total assets	¥2,381,774	¥ 2,405,751	¥ 2,286,949	\$ 29,046

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2012	2011	2010	2012
<b>Liabilities and net assets</b>				
Current liabilities:				
Short-term loans (Notes 3 and 5)	¥ 158,765	¥ 130,555	¥ 109,910	\$ 1,936
Current portion of long-term debt (Note 5)	99,796	42,360	30,962	1,217
Current portion of long-term payables (Notes 3 and 6)	41,111	39,389	30,308	501
Accounts payable (Note 3)	114,198	156,709	131,918	1,392
Prepaid railway fares received	32,193	31,059	31,303	392
Deposits and advances received	50,140	39,666	44,701	611
Accrued expenses	45,487	44,447	42,600	554
Accrued income taxes (Note 7)	13,014	7,809	6,868	158
Allowance for customer point programs	430	345	302	5
Other current liabilities	6,044	807	437	73
Total current liabilities	<u>561,180</u>	<u>494,432</u>	<u>429,312</u>	<u>6,843</u>
Long-term debt (Note 5)	665,273	714,967	630,225	8,113
Long-term payables (Notes 3 and 6)	250,156	291,232	330,586	3,050
Accrued retirement benefits	297,519	302,044	303,883	3,628
Allowance for environmental safety measures	6,274	7,033	9,039	76
Other long-term liabilities	12,975	14,653	15,799	158
Total long-term liabilities	<u>1,232,198</u>	<u>1,329,930</u>	<u>1,289,534</u>	<u>15,026</u>
Contingent liabilities (Note 9)				
Net assets:				
Shareholders' equity (Note 10):				
Common stock:				
Authorized – 800,000,000 shares at March 31, 2012 and 8,000,000 shares at March 31, 2011 and 2010				
Issued and outstanding – 200,000,000 shares at March 31, 2012 and 2,000,000 shares at March 31, 2011 and 2010	100,000	100,000	100,000	1,219
Capital surplus	55,000	55,000	55,000	670
Retained earnings (Note 13)	462,684	456,024	442,024	5,642
Less treasury stock, at cost – 6,265,399 shares at March 31, 2012 and 62,653 shares at March 31, 2011 and 2010	(29,999)	(29,999)	(29,999)	(365)
Total shareholders' equity	<u>587,684</u>	<u>581,025</u>	<u>567,024</u>	<u>7,166</u>
Valuation and translation adjustments:				
Net unrealized holding gain on securities	709	361	1,077	8
Total valuation and translation adjustments	<u>709</u>	<u>361</u>	<u>1,077</u>	<u>8</u>
Total net assets	<u>588,394</u>	<u>581,387</u>	<u>568,102</u>	<u>7,175</u>
Total liabilities and net assets	<u>¥ 2,381,774</u>	<u>¥ 2,405,751</u>	<u>¥ 2,286,949</u>	<u>\$ 29,046</u>

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company  
Non-Consolidated Statements of Income

Years ended March 31, 2012, 2011 and 2010

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2012	2011	2010	2012
Operating revenues:				
Transportation	¥758,753	¥728,013	¥720,042	\$ 9,253
Transportation incidentals	19,551	19,550	20,160	238
Other operations	23,294	21,816	21,116	284
Miscellaneous	60,581	59,270	55,465	738
	<u>862,180</u>	<u>828,651</u>	<u>816,784</u>	<u>10,514</u>
Operating expenses ( <i>Note 11</i> ):				
Personnel	237,951	235,343	265,248	2,901
Energy	36,236	33,722	33,590	441
Maintenance	133,398	135,829	128,107	1,626
Depreciation	140,794	129,118	119,969	1,717
Rent	23,617	25,131	25,091	288
Miscellaneous taxes	30,961	29,826	29,359	377
Other	169,937	163,857	156,913	2,072
	<u>772,898</u>	<u>752,830</u>	<u>758,280</u>	<u>9,425</u>
Operating income	89,282	75,821	58,503	1,088
Other income (expenses):				
Interest and dividend income	1,405	1,353	1,232	17
Interest expense	(32,652)	(33,499)	(34,152)	(398)
Gain on sales of property, plant and equipment	3,292	2,356	7,157	40
Other, net	(181)	2,018	1,538	(2)
	<u>(28,135)</u>	<u>(27,770)</u>	<u>(24,224)</u>	<u>(343)</u>
Income before income taxes	61,146	48,050	34,279	745
Income taxes ( <i>Note 7</i> ):				
Current	23,523	20,480	22,246	286
Deferred	15,464	(961)	(8,544)	188
	<u>38,988</u>	<u>19,519</u>	<u>13,702</u>	<u>475</u>
Net income	<u>¥ 22,158</u>	<u>¥ 28,530</u>	<u>¥ 20,577</u>	<u>\$ 270</u>

*See accompanying notes to non-consolidated financial statements.*

# West Japan Railway Company

## Non-Consolidated Statements of Changes in Net Assets

Years ended March 31, 2012, 2011 and 2010

*Millions of yen*

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2009	¥ 100,000	¥ 55,000	¥ 435,008	¥ (29,999)	¥ 560,009	¥ 780	¥ 780	¥ 560,789
Net income for the year	-	-	20,577	-	20,577	-	-	20,577
Cash dividends	-	-	(13,561)	-	(13,561)	-	-	(13,561)
Net changes in items other than shareholders' equity	-	-	-	-	-	297	297	297
Balance at April 1, 2010	¥ 100,000	¥ 55,000	¥ 442,024	¥ (29,999)	¥ 567,024	¥ 1,077	¥ 1,077	¥ 568,102
Net income for the year	-	-	28,530	-	28,530	-	-	28,530
Cash dividends	-	-	(14,530)	-	(14,530)	-	-	(14,530)
Net changes in items other than shareholders' equity	-	-	-	-	-	(715)	(715)	(715)
Balance at April 1, 2011	¥ 100,000	¥ 55,000	¥ 456,024	¥ (29,999)	¥ 581,025	¥ 361	¥ 361	¥ 581,387
Net income for the year	-	-	22,158	-	22,158	-	-	22,158
Cash dividends	-	-	(15,498)	-	(15,498)	-	-	(15,498)
Purchases of treasury stock	-	-	-	(0)	(0)	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	347	347	347
Balance at March 31, 2012	¥ 100,000	¥ 55,000	¥ 462,684	¥ (29,999)	¥ 587,684	¥ 709	¥ 709	¥ 588,394

*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	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2011	\$ 1,219	\$ 670	\$ 5,561	\$ (365)	\$ 7,085	\$ 4	\$ 4	\$ 7,090
Net income for the year	-	-	270	-	270	-	-	270
Cash dividends	-	-	(189)	-	(189)	-	-	(189)
Purchases of treasury stock	-	-	-	(0)	(0)	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	4	4	4
Balance at March 31, 2012	\$ 1,219	\$ 670	\$ 5,642	\$ (365)	\$ 7,166	\$ 8	\$ 8	\$ 7,175

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements

March 31, 2012

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

#### **Basis of Presentation of Financial Statements**

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

The accompanying non-consolidated financial statements relate to the Company only, with investments in subsidiaries and affiliates being stated at cost.

The accompanying non-consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥82 = U.S. \$1.00, the exchange rate prevailing on March 31, 2012. 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 non-consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

#### **Summary of Significant Accounting Policies**

##### *(1) Investments in securities*

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

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

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

##### *(2) Inventories*

The Company's inventories consist of rails, materials and supplies and they are stated at lower of cost or net selling value, cost being determined by the moving average method.

##### *(3) Property, plant and equipment (excluding leased assets)*

Property, plant and equipment are stated at cost (see Note 4). Depreciation is determined by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

##### *(4) Intangible assets*

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

##### *(5) 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, a period of five years.

##### *(6) Leases*

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.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

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

##### *(7) 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.

##### *(8) Allowance for doubtful accounts*

Allowance for doubtful accounts is computed based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.

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

Allowance for customer point program is provided, at a reasonably estimated amount, for expected expenditures corresponding to the points granted to J-West card members, which are expected to be utilized by the card members in the following periods.

##### *(10) Accrued retirement benefits*

Accrued retirement benefits for employees are provided at the retirement benefit obligation, as adjusted for the 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.

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

Prior service cost is charged to income when incurred.

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

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

#### *(11) 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.

#### *(12) 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 currency swap contracts and interest-rate swap contracts are utilized to manage foreign currency and interest-rate risk. Currency swap 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 currency swap 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 (“Special treatment”).

### **2. Adoption of New Accounting Standards**

#### *(1) Accounting Standard for Earnings per Share*

Effective the year ended March 31, 2012, the Company adopted “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2 revised on June 30, 2010), “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4 revised on June 30, 2010), and “Practical Solution on Accounting for Earnings Per Share” (ASBJ Practical Issues Task Force (PITF) No. 9 revised on June 30, 2010) (Refer to Note 12).

#### *(2) Accounting Standard for Accounting Changes and Error Corrections*

Effective April 1, 2011, the Company adopted “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No.24 issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24 issued on December 4, 2009).



## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 3. Balances with Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 2012, 2011 and 2010 consisted of the following:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Investments in:				
Subsidiaries	¥ 120,946	¥ 120,851	¥ 113,704	\$ 1,474
Affiliates	26,213	26,048	25,866	319
Advances to subsidiaries	75,219	58,087	48,269	917
	<u>¥ 222,379</u>	<u>¥ 204,986</u>	<u>¥ 187,839</u>	<u>\$ 2,711</u>

At March 31, 2012, 2011 and 2010, investments in subsidiaries and affiliates for which it is extremely difficult to determine the fair value are summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Investment securities:				
Subsidiaries	¥ 120,946	¥ 120,851	¥ 113,704	\$ 1,474
Affiliates	26,213	26,048	25,866	319
	<u>¥ 147,159</u>	<u>¥ 146,899</u>	<u>¥ 139,570</u>	<u>\$ 1,794</u>

Because no quoted market prices are available for the above securities, it is extremely difficult to determine the fair value.

Amounts due from and due to subsidiaries and affiliates at March 31, 2012, 2011 and 2010 are presented in the accompanying non-consolidated balance sheets as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Due from subsidiaries and affiliates:				
Short-term loans receivable included in prepaid expenses and other current assets	¥ 29,684	¥ 29,298	¥ 14,975	\$ 362
Due to subsidiaries and affiliates:				
Short-term loans	¥ 157,947	¥ 129,681	¥ 109,003	\$ 1,926
Current portion of long-term payables	288	288	288	3
Accounts payable	93,354	108,936	99,946	1,138
Long-term payables	536	824	1,112	6
	<u>¥ 252,126</u>	<u>¥ 239,730</u>	<u>¥ 210,349</u>	<u>\$ 3,074</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2012, 2011 and 2010 consisted of the following:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Land	¥ 640,148	¥ 640,585	¥ 640,813	\$ 7,806
Buildings	415,157	372,894	365,729	5,062
Railway fixtures	2,148,369	2,119,624	2,083,823	26,199
Rolling stock and other vehicles	931,480	934,737	867,958	11,359
Ships	4	4	4	0
Machinery and equipment	292,504	281,837	268,993	3,567
Furniture and fixtures	66,662	62,744	59,647	812
Leases	1,305	1,213	398	15
Construction in progress	38,536	74,923	65,526	469
	<u>4,534,169</u>	<u>4,488,565</u>	<u>4,352,894</u>	<u>55,294</u>
Less accumulated depreciation	(2,710,037)	(2,657,674)	(2,573,134)	(33,049)
Property, plant and equipment, net	<u>¥ 1,824,131</u>	<u>¥ 1,830,890</u>	<u>¥ 1,779,760</u>	<u>\$ 22,245</u>

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, 2012, 2011 and 2010 totaled ¥15,162 million (\$184 million), ¥38,530 million and ¥35,200 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2012, 2011 and 2010 were ¥650,682 million (\$7,935 million), ¥637,643 million and ¥603,841 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, 2012, 2011 and 2010 totaled ¥2,960 million (\$36 million), ¥4,805 million and ¥6,124 million, respectively.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 5. 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, 2012, 2011 and 2010 ranged from 0.21% to 0.67%, from 0.23% to 0.79%, and from 0.25% to 0.98%, respectively.

Long-term debt at March 31, 2012, 2011 and 2010 is summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2017 through 2019	¥ 110,000	¥ 110,000	¥ 110,000	\$ 1,341
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.387% to 2.49%, due from 2013 through 2041	344,972	334,970	274,968	4,206
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.37% to 5.20%, due in installments from 2013 through 2020	49,269	55,625	48,983	600
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.4675% to 2.36%, due in installments from 2013 through 2032	245,100	240,100	209,700	2,989
Other	15,728	16,632	17,536	191
	<u>765,069</u>	<u>757,327</u>	<u>661,187</u>	<u>9,330</u>
Less current portion	<u>(99,796)</u>	<u>(42,360)</u>	<u>(30,962)</u>	<u>(1,217)</u>
	<u>¥ 665,273</u>	<u>¥ 714,967</u>	<u>¥ 630,225</u>	<u>\$ 8,113</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 5. Short-Term Loans and Long-Term Debt (continued)

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
2013	¥ 99,796	\$ 1,217
2014	36,512	445
2015	43,403	529
2016	35,824	436
2017	62,300	759
2018 and thereafter	487,234	5,941
	<u>¥765,069</u>	<u>\$ 9,330</u>

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, 2012, 2011 and 2010 was as follows:

	<u>Millions of yen</u>			<u>Millions of U.S. dollars</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>
Lines of credit	¥ 130,000	¥ 100,000	¥ 100,000	\$ 1,585
Credit utilized	-	-	-	-
Available credit	<u>¥ 130,000</u>	<u>¥ 100,000</u>	<u>¥ 100,000</u>	<u>\$ 1,585</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 6. Long-Term Payables

Long-term payables at March 31, 2012, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2013 through 2017	¥ 108,897	¥ 135,658	¥ 164,521	\$ 1,328
Fixed interest portion at 6.35% and 6.55%, due in installments from 2013 through 2052	175,610	187,321	187,860	2,141
Other	6,759	7,641	8,512	82
	<u>291,268</u>	<u>330,622</u>	<u>360,894</u>	<u>3,552</u>
Less current portion	(41,111)	(39,389)	(30,308)	(501)
	<u>¥ 250,156</u>	<u>¥ 291,232</u>	<u>¥ 330,586</u>	<u>\$ 3,050</u>

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from Shinkansen Holding Corporation ("SHC") for a total price of ¥974,111 million. The Company is currently liable to the Japan Railway Construction, Transport & Technology Agency ("JRJT") for this purchase. In accordance with the terms of the purchase agreement, the interest rate applied to the variable interest portion of the payables for each fiscal year will be adjusted every year to a weighted-average interest rate to be determined based on the interest rate of certain of JRJT's long-term debt (as defined in the purchase agreement) assumed from SHC and outstanding as of April 1 of each respective year. The average variable interest rates for the years ended March 31, 2012, 2011 and 2010 were 4.08%, 4.08% and 4.15%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2012 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2013	¥ 41,111	\$ 501
2014	39,978	487
2015	38,341	467
2016	33,655	410
2017	30,797	375
2018 and thereafter	107,384	1,309
	<u>¥ 291,268</u>	<u>\$ 3,552</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 7. Income Taxes

The aggregate statutory tax rate applicable to the Company was 40.69% for the years ended March 31, 2012, 2011 and 2010.

A reconciliation of the statutory tax rate and effective tax rates for the year ended March 31, 2012 as a percentage of income before income taxes was as follows:

	<u>2012</u>
Statutory tax rate	40.69 %
Increase (decrease) in income taxes resulting from:	
Decrease in deferred tax assets due to tax rate changes	23.38
Per capita portion of inhabitants' taxes	0.52
Special deduction for R&D costs	(0.76)
Other	(0.07)
Effective tax rate	<u><u>63.76 %</u></u>

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2011 and 2010 has been omitted because the differences between these tax rates were less than five percent of the statutory tax rate.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 7. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities at March 31, 2012, 2011 and 2010 are summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2012	2011	2010	2012
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 9,802	¥ 10,432	¥ 10,019	\$ 119
Accrued social insurance premiums included in accrued expenses	1,285	1,330	1,262	15
Accrued enterprise taxes included in accrued income taxes	1,250	940	889	15
Accrued retirement benefits	107,326	122,901	123,649	1,308
Allowance for environmental safety measures	2,252	2,928	3,729	27
Other	14,259	15,611	13,946	173
Gross deferred tax assets	136,177	154,144	153,497	1,660
Valuation allowance	(5,274)	(6,021)	(5,981)	(64)
Total deferred tax assets	130,903	148,122	147,515	1,596
Deferred tax liabilities:				
Unrealized holding gain on securities	(393)	(248)	(739)	(4)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(12,015)	(13,770)	(14,124)	(146)
Total deferred tax liabilities	(12,408)	(14,018)	(14,863)	(151)
Deferred tax assets, net	¥ 118,494	¥ 134,104	¥ 132,651	\$ 1,445

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### **7. Income Taxes (continued)**

Following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No.114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No.117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012.

In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.69% to 38.01% for temporary differences expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.69% to 35.64% for temporary differences expected to be realized during the fiscal year beginning on April 1, 2015 and thereafter.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥14,243 million (\$173 million), and income taxes – deferred (debit) increased by ¥14,299 million (\$174 million) as of and for the year ended March 31, 2012.



## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 8. 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 are accounted for in the same manner as operating leases.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2012, 2011 and 2010, which would have been reflected in the accompanying non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

<i>Millions of yen</i>						
2012			2011			
Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	
Leased assets for:						
Railway operations	¥ 299	¥ 254	¥ 45	¥ 502	¥ 372	¥ 129
Other operations	6	5	0	10	8	2
	¥ 306	¥ 259	¥ 46	¥ 512	¥ 381	¥ 131

<i>Millions of yen</i>		
2010		
Acquisition costs	Accumulated depreciation	Net book value
Leased assets for:		
Railway operations	¥ 705	¥ 450
Other operations	39	31
	¥ 744	¥ 481

<i>Millions of U.S. dollars</i>		
2012		
Acquisition costs	Accumulated depreciation	Net book value
Leased assets for:		
Railway operations	\$ 3	\$ 3
Other operations	0	0
	\$ 3	\$ 3

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 8. Leases (continued)

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2012, 2011 and 2010 totaled ¥80 million (\$0 million), ¥126 million and ¥170 million, respectively. These amounts are equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2013	¥ 41	\$ 0
2014 and thereafter	4	0
	¥ 46	\$ 0

Future minimum lease payments subsequent to March 31, 2012 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2013	¥ 94	\$ 1
2014 and thereafter	180	2
	¥ 275	\$ 3

#### 9. Contingent Liabilities

At March 31, 2012, the Company was contingently liable for guarantees of loans to subsidiaries and an affiliate and prepaid hotel vouchers issued by certain consolidated subsidiaries, which are recorded as a component of deposits and advances received, in the aggregate amount of ¥18,344 million (\$223 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.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 10. Shareholders' Equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying non-consolidated balance sheets and non-consolidated statements of changes in net assets. The Company's legal reserve amounted to ¥11,327 million (\$138 million) at March 31, 2012, 2011 and 2010.

Treasury stock

Movements in treasury stock during the years ended March 31, 2012, 2011 and 2010 are summarized as follows:

	<i>Number of shares</i>			
	<u>April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2012</u>
Treasury stock	62,653	6,202,746	–	6,265,399

	<i>Number of shares</i>			
	<u>April 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2011</u>
Treasury stock	62,653	–	–	62,653

	<i>Number of shares</i>			
	<u>April 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2010</u>
Treasury stock	62,653	–	–	62,653

Based on a resolution at a meeting of the Board of Directors, on July 1, 2011, the Company made a 1-for-100 stock split of common stock owned by shareholders registered or recorded on the shareholders list as of June 30, 2011, and the Company also adopted a lot trading system, whereby one trading lot was set at 100 shares.

The increases in treasury stock during the year ended March 31, 2012 were due to the stock split and purchases of shares of less than one trading unit.

#### 11. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥7,107 million (\$86 million), ¥6,263 million and ¥6,262 million for the years ended March 31, 2012, 2011 and 2010, respectively.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 12. Amounts per Share

Amounts per share at March 31, 2012, 2011 and 2010 and for the years then ended were as follows:

	<i>Yen</i>			<i>U.S. dollars</i>
	2012	2011	2010	2012
Net assets	¥ 3,037.12	¥ 3,000.95	¥ 2,932.38	\$ 37
Net income	114.37	147.27	106.21	1
Cash dividends	90.00	8,000.00	7,000.00	1

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, 2012, 2011 and 2010 since the Company had no potentially dilutive stock at March 31, 2012, 2011 and 2010.

As described in Note 10, on July 1, 2011, the Company made a 1-for-100 share split.

As described in Note 2(1), effective the year ended March 31, 2012, the Company adopted “Accounting Standard for Earnings Per Share” (ASBJ Statement No.2 revised on June 30, 2010), “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No.4 revised on June 30, 2010), and “Practical Solution on Accounting for Earnings Per Share” (ASBJ Practical Issues Task Force (PITF) No.9 revised on June 30, 2010).

In accordance with these accounting standards, the above per share information at March 31, 2012, 2011 and 2010 and for the years then ended, was calculated on the assumption that the stock split had been made on April 1, 2009.

The following information on amounts per share at March 31, 2011 and 2010 and for the years then ended, were calculated on the assumption that these accounting standards had not been adopted:

	<i>Yen</i>	<i>Yen</i>
	2011	2010
Net assets	¥ 300,094.77	¥ 293,237.50
Net income	14,726.76	10,621.42

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.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 13. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2012, was to be approved at a meeting of the shareholders of the Company to be held on June 22, 2012:

	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
Cash dividends (¥50 = U.S.\$0 per share)	¥ 9,686	\$ 118