

# Annual Report 2014

Year ended March 31, 2014



# Taking the Next Step. Working together with communities.

Management Vision: The JR-West Group will strive to contribute to the invigoration of the West Japan area through its business activities, and to that end we will strive to be a corporate group that excels in safety management and earns the trust of customers, communities, and society.

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## Our History

West Japan Railway Company (JR-West) is one of the six passenger railway transport companies created in 1987, when Japanese National Railways was split up and privatized. In our railway operations, our core business activity, our railway network extends over a total of 5,015.7km. Making the most of the various forms of railway asset value represented by our stations and railway network, we are also engaged in retail, real estate, hotel, and other businesses.

Business	Company	Main Regions of Operation
Passenger	Hokkaido Railway Company	Hokkaido
	East Japan Railway Company	Tohoku, Kanto
	Central Japan Railway Company	Tokai
	<b>West Japan Railway Company</b>	<b>Hokuriku, Kansai, Chugoku</b>
	Shikoku Railway Company	Shikoku
	Kyushu Railway Company	Kyushu
Freight	Japan Freight Railway Company	Nationwide

## Regarding the Company's Fiscal Year

The Company's fiscal year is from April 1 to March 31. The fiscal years referred to in this Report are the years ending on the last day of the indicated year.  
e.g. fiscal 2014, FY2014 → the year ending March 31, 2014

## Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements that are based on JR-West's current expectations, assumptions, estimates, and projections about its business, industry, and capital markets around the world.

These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "plan," or similar words.

These statements discuss future expectations, identify strategies, contain projections of results of operations or of JR-West's financial condition, or state other forward-looking information.

Known or unknown risks, uncertainties, and other factors could cause the actual results to differ materially from those contained in any forward-looking statements. JR-West cannot promise that the expectations expressed in these forward-looking statements will turn out to be correct. JR-West's actual results could be materially different from and worse than expectations.

Important risks and factors that could cause actual results to be materially different

from expectations include, but are not limited to:

- expenses, liability, loss of revenue, or adverse publicity associated with property or casualty losses;
- economic downturn, deflation, and population decreases;
- adverse changes in laws, regulations, and government policies in Japan;
- service improvements, price reductions, and other strategies undertaken by competitors such as other passenger railway and airline companies;
- earthquake and other natural disaster risks; and
- failure of computer telecommunications systems disrupting railway or other operations.

All forward-looking statements in this annual report are made as of September 2014 based on information available to JR-West as of September 2014, and JR-West does not undertake to update or revise any of its forward-looking statements or reflect future events or circumstances.

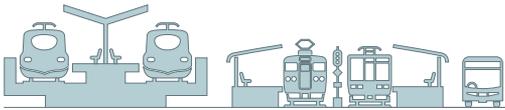
Future compensation and other expenses related to the Fukuchiyama Line accident that occurred on April 25, 2005 are difficult to estimate reasonably at this time, and so have not been included in forecasts.



# JR-West at a Glance

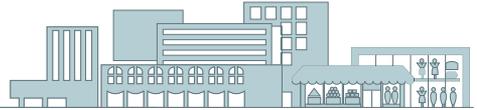
Transportation operations

## Railway and Bus and Ferry Services



Other operations

## Real Estate and Retail Business



### Transportation Operations

● **Sanyo Shinkansen**



● **Kansai Urban Area**  
(including the Urban Network)



● **Other Conventional Lines**



● **Bus and Ferry Services**

### Non-Transportation Operations

● **Retail Business**



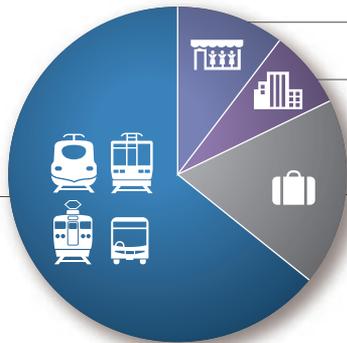
● **Real Estate Business**



● **Other Businesses**



Operating Revenues  
by Business Segment  
(from Third Parties)  
(Consolidated)



Fiscal 2014 Total

**¥1,331.0** billion

# West Japan at a Glance

JR-West's railway network covers 18 prefectures in the western half of the island of Honshu and the northern tip of the island of Kyushu, and comprises 20% of Japan's land area. The area we serve is home to approximately 43.1 million people, about 34% of the country's population, and has a nominal GDP of ¥159 trillion. It also sees visits by 918 million tourists annually.

GDP

**¥159** trillion

Population

**43.1** million

Tourists

**918** million

Kanazawa

Fukuchiyama

Kobe

Osaka

Kyoto

Wakayama

# JR-West at a Glance

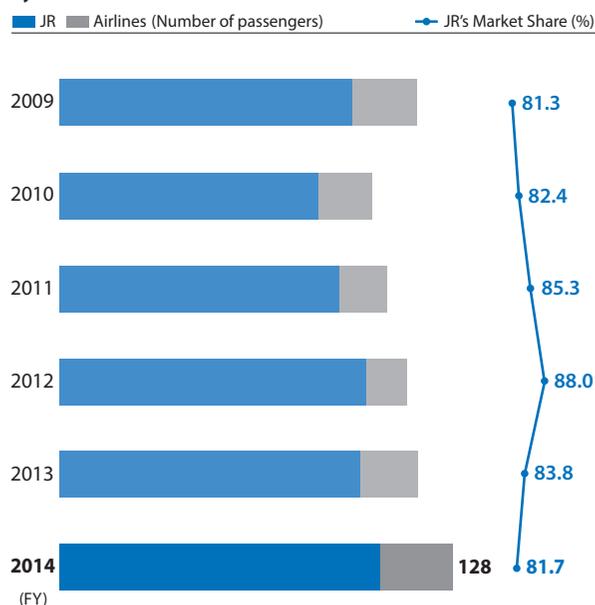
## Shinkansen Compared to Airlines

### Shinkansen is used by many

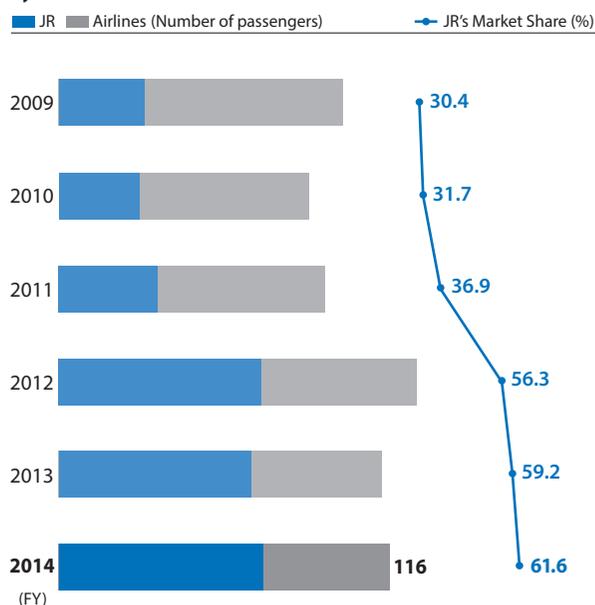
In Japan, many businessmen and tourists use the Shinkansen.

For the Kyoto-Osaka-Kobe Area to Fukuoka, for example, over 80% of people prefer to travel by Shinkansen rather than airline.

#### Kyoto-Osaka-Kobe Area to Fukuoka



#### Kyoto-Osaka-Kobe Area to Kumamoto



Note: Figures for the fiscal 2014 are preliminary. Each graph bar represents the number of passengers using JR and the number of passengers using airlines; the bars indicate the total number of passengers using JR or using airlines compared to the base year index of 100 (the fiscal 1997).  
Kyoto-Osaka-Kobe area and Kumamoto: the base year index of 100 (the fiscal 2008)  
Source: Ministry of Land, Infrastructure, Transport and Tourism

# West Japan at a Glance

## West Japan World Ranking

### GDP

### larger than Australia

The West Japan area has a GDP of approximately ¥159 trillion. Compared to a GDP ranking of the world's nations and regions, the GDP of West Japan is larger than that of even the nation of Australia.

#### GDP Ranking of the World's Nations and Regions

Ranking	Country	GDP (Trillions of yen)
7	Brazil	239.60
8	Russia	202.20
9	Italy	201.41
10	India	182.48
11	Canada	181.91
12	Australia	154.18
13	Spain	135.21
14	Mexico	117.71
15	South Korea	115.59
16	Indonesia	87.82

**West Japan**  
159 trillion

Source: GDP: World Economic Outlook Database, April 2013, International Monetary Fund

### Population

### larger than Argentina

The population of the West Japan area is 43.1 million. Compared to a population ranking of the world's nations and regions, the population of West Japan is larger than that of the nation of Argentina.

#### Population Ranking of the World's Nations and Regions

Country	Population (Million)
France	64.3
United Kingdom	63.1
Italy	61.0
Spain	46.9
Argentina	41.4
Poland	38.2
Canada	35.2
Malaysia	29.7
Australia	23.3
Netherlands	16.8

**West Japan**  
43.1 million

Source: World Population Prospects: The 2012 Revision, United Nations

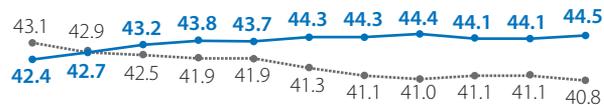
## JR-West Compared to Private Lines

### High share in the Urban Network Area

In the Urban Network area, JR-West commands a market share greater than that of the five private lines combined.

#### Market Share (Traffic Volume Base)

—●— JR-West    - - - ● - - - 5 Private Railways in Kyoto-Osaka-Kobe Area\*    —●— Other Railways (%)



2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 (FY)

\* 5 Private Railways in Kyoto-Osaka-Kobe Area: Hankyu, Hanshin, Keihan, Kintetsu, and Nankai

## Eco-friendly System

### Maintaining high passenger usage, and low energy consumption and CO<sub>2</sub> emissions

#### Transportation Usage, Energy Consumption and CO<sub>2</sub> Emissions of Domestic Modes of Transportation (FY2010, Nationwide)

■ Railway ■ Bus ■ Car ■ Other (Including airplane) (%)

##### Transportation Usage Ratio



##### Energy Consumption Ratio

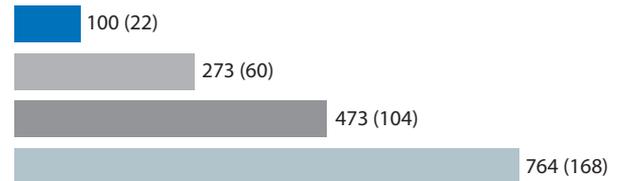


Source: Summary of Transportation Statistics, Transport Research and Statistics Office, Ministry of Land, Infrastructure, Transport and Tourism, The GHGs Emissions Data of Japan, Greenhouse Gas Inventory Office of Japan

#### CO<sub>2</sub> Emissions by Mode of Transportation (Tourists) (FY2013)

■ Railway ■ Bus ■ Private vehicles ■ Airplane

##### Value for railway scaled to 100



Source: Ministry of Land, Infrastructure, Transport and Tourism website. Numbers in parentheses are actual CO<sub>2</sub> emissions volumes (g-CO<sub>2</sub> / passenger-kilometers)

## West Japan: Tourist Destination

### 6 prefectures

in the top 20 tourist destinations ranking

Among the 20 most popular tourist destinations in Japan are six West Japan prefectures, including Osaka and Kyoto.

#### Visiting Rate by Prefecture (CY2013 result)

Quantity of responses: 28,920, Check all that apply

Ranking	Prefectures	Visit rate (%)
1	Tokyo	47.3
2	Osaka	25.1
3	Kyoto	18.9
4	Kanagawa	11.2
5	Fukuoka	11.0
6	Chiba	9.6
7	Aichi	8.5
8	Hokkaido	7.8
9	Hyogo	6.2
13	Nara	4.4
16	Hiroshima	3.0

Blue shaded areas are JR-West's operating area. Source: Japan Tourism Agency

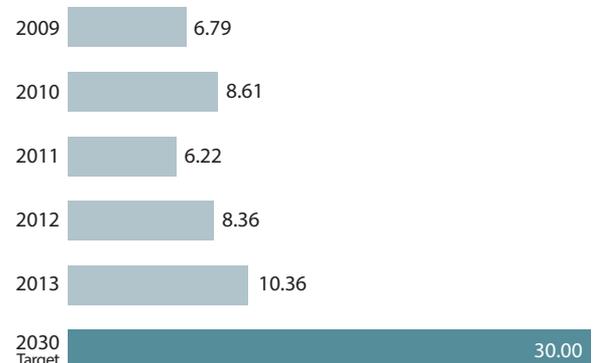
## Japan: Inbound Visitors

### Annual number of foreign visitors exceeded 10 million

The number of inbound visitors to Japan exceeded 10 million for the first time in 2013.

#### Inbound Visitors to Japan

(Millions of people)



Source: Japan National Tourism Organization

## Overview

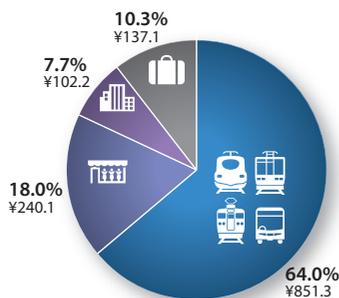
# We will fulfill Our Mission.

The JR-West Group will focus on “safety” and “customer satisfaction,” as well as on the “technologies” that supports safety and customer satisfaction. In this way, we will fulfill our mission of continued operation of railway services as social infrastructure. As we work to fulfill our mission, we will strive to contribute to the creation of a safe, comfortable society.

## Operating Revenues (Billion)

(Revenues from Third Parties)

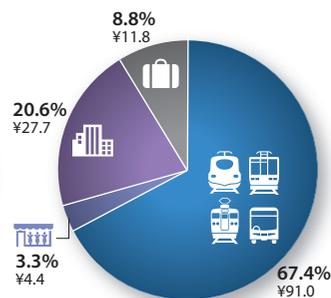
Total  
**¥1,331.0** billion



- Transportation Operations
- Retail Business
- Real Estate Business
- Other Businesses

## Operating Income (Billion)

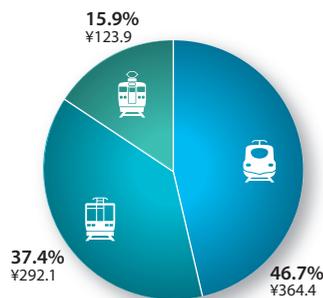
Total  
**¥134.5** billion



- Transportation Operations
- Retail Business
- Real Estate Business
- Other Businesses

## Railway Revenues (Billion)

Total  
**¥780.6** billion

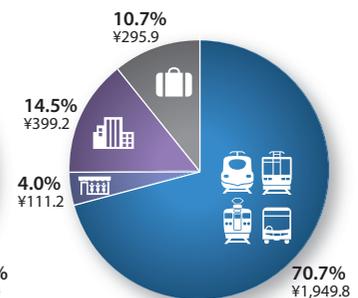


- Sanyo Shinkansen
- Kansai Urban Area (Kyoto-Osaka-Kobe Area)
- Other Conventional Lines

## Total Assets (Billion)

(As of March 31, 2014)

Total  
**¥2,687.8** billion



- Transportation Operations
- Retail Business
- Real Estate Business
- Other Businesses



## Transportation Operations

JR-West's railway network comprises the Sanyo Shinkansen and conventional lines in the Kansai Urban Area and other areas.



### Sanyo Shinkansen

The Sanyo Shinkansen is a high-speed intercity passenger service operating at a maximum speed of 300kph between Shin-Osaka Station in Osaka and Hakata Station in Fukuoka in the northern tip of Kyushu. With the cooperation of JR-Central and JR Kyushu, JR-West provides direct services linking the Tokyo metropolitan area with the Kyushu area and providing access to Osaka and several major cities in between.

See page 18 for more details.



### Kansai Urban Area

The Kansai Urban Area (including the Urban Network) provides passenger transport services to the densely populated cities of Kyoto, Osaka, and Kobe and their surrounding areas. In fiscal 2014, JR-West served a daily average of 4.07 million passengers in the Kansai Urban Area. These passengers were mainly people commuting to and from work or school.

See page 20 for more details.



### Other Conventional Lines

JR-West's other conventional lines consist of limited express and express service trains for intercity transport, local transport for commuting to and from work or school in such core urban areas as Hiroshima and Okayama, and local lines through less-populated areas.

See page 22 for more details.

# We will become a “company that coexists with communities.”

We will contribute to the invigoration of communities by increasing the quality of railway operations, expanding the scale of non-railway operations, and promoting the creation of new businesses. To that end, we will deepen exchange and cooperation with members of communities, and the entire JR-West Group will work together to develop operations that are aligned with the characteristics of specific areas.

Number of passengers

**1,858** million

Number of stations

**1,222**

Number of passenger cars

**6,511**

Total route length

**5,015.7** km

Conventional lines

Route length  
**4,371.7** km

Passengers

**1,806** million

Shinkansen

Route length  
**644.0** km

Passengers

**67** million



## ● Retail Business



JR-West's retail business mainly targets railway passengers, consisting of convenience stores, specialty stores, and food and beverage establishments located in and around station buildings, as well as department stores.

*See page 25 for more details.*

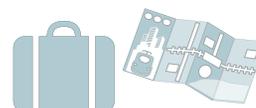


## ● Real Estate Business



JR-West's real estate business consists of the management of shopping centers in station buildings and other facilities, operation of large station buildings at terminal stations, development of commercial facilities near station areas and underneath elevated tracks, and real estate sales and leasing operations for residential and urban development focused on railway lines.

*See page 25 for more details.*



## ● Other Businesses



JR-West's other businesses consist of a travel agency business, a hotel business, as well as an advertising agency business, maintenance and engineering services, and other businesses to facilitate the smooth and efficient operation of the mainstay railway business.

*See page 26 for more details.*

# Financial Highlights

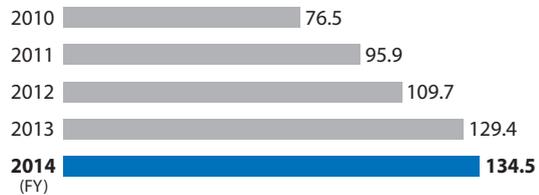
## Operating revenues

**2.5% increase**   
(Billions of yen)



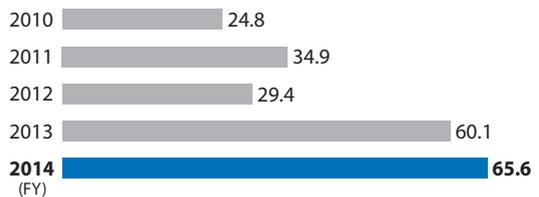
## Operating income

**3.9% increase**   
(Billions of yen)



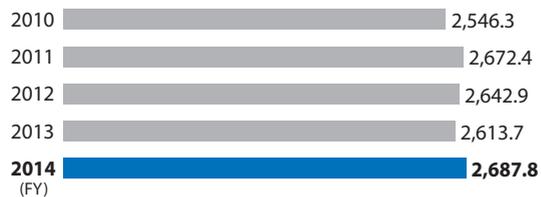
## Net income

**9.0% increase**   
(Billions of yen)



## Total assets

**2.8% increase**   
(Billions of yen)



## Total net assets

**5.1% increase**   
(Billions of yen)



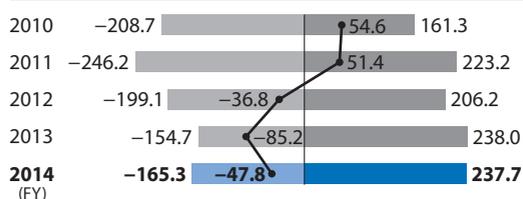
## Long-term debt and payables\*1

**0.2% decrease**   
(Billions of yen)



## Cash flows

 Net cash provided by operating activities **0.1% decrease**   
 Net cash used in investing activities **6.9% increase**   
 Net cash provided by (used in) financing activities **43.9% decrease**   
 (Billions of yen)



## Depreciation and amortization

**4.3% decrease**   
(Billions of yen)



\*1 Long-term debt and payables includes the current portion of long-term debt and long-term payables.

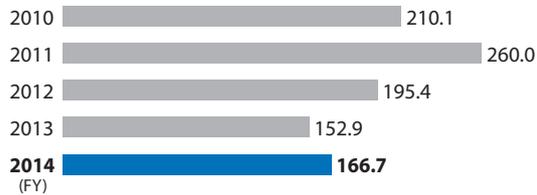
\*2 EBITDA = Operating income + Depreciation

\*3 The Company conducted a stock split on July 1, 2011, at a ratio of 100 ordinary shares for each ordinary share. Figures have been recalculated based on the number of shares after the stock split.

\*4 In the Medium-Term Management Plan, the Company aims to attain an approximately 3% "rate of total distribution on net assets" on a consolidated basis for fiscal 2018. The rate in fiscal 2014 was 2.9%. Rate of total distribution on net assets = (total dividends + acquisitions of treasury stock) / consolidated net assets.

### Capital expenditures, excluding contributions received for construction

**9.0% increase** ↗ (Billions of yen)



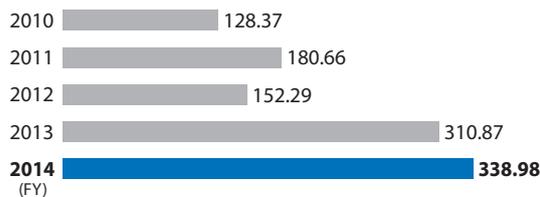
### EBITDA\*2

**0.6% decrease** ↘ (Billions of yen)



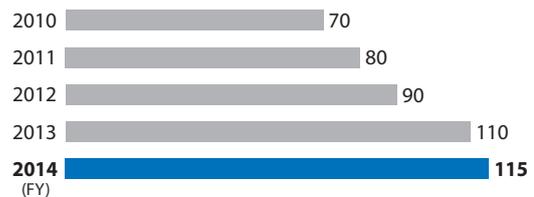
### Net income per share\*3

**9.0% increase** ↗ (Yen)



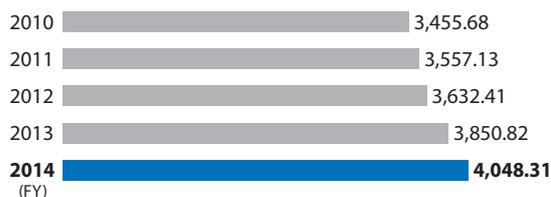
### Cash dividends per share\*3

**4.5% increase** ↗ (Yen)



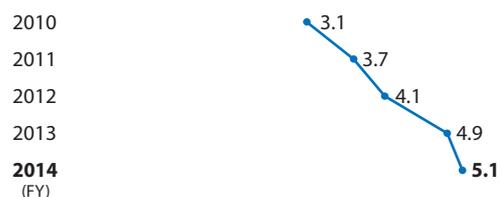
### Net assets per share\*3

**5.1% increase** ↗ (Yen)



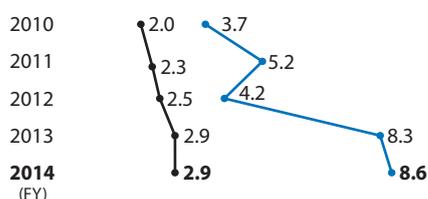
### ROA (Operating income basis)

**0.2 point increase** ↗ (%)



### ROE / DOE\*4

ROE: **0.3 point increase** ↗  
DOE: **0.0 point** → (%)



### Equity ratio

**0.6 point increase** ↗ (%)



# Non-financial Highlights

## Intellectual Capital

### Commercialization of New Safety System

The launch of the new safety system outlined in the Medium-Term Management Plan is now scheduled for spring 2015 when a new railcar featuring the system will be placed into service in Hiroshima. The new safety system will provide a variety of operational support functions in addition to its conventional ATS features, with each railcar carrying a database of information. We are currently in the process of applying for a patent for certain parts of the system's functions. In addition to the new safety system, new railcars will come equipped with a device that detects objects that are caught in doors after they close, and we are in the process of applying for a patent for this device as well. New railcars also have other new systems, such as the system that automatically applies the emergency breaks whenever any abnormalities are detected, such as derailment, and notifies other trains running in the vicinity.

Additionally, in June 2014 we newly established the Railway System Planning Department to create and execute a concept for our technical strategy on future railway operations, and this department is now promoting medium- to long-term cross-functional problem solving based on our technical strategy.

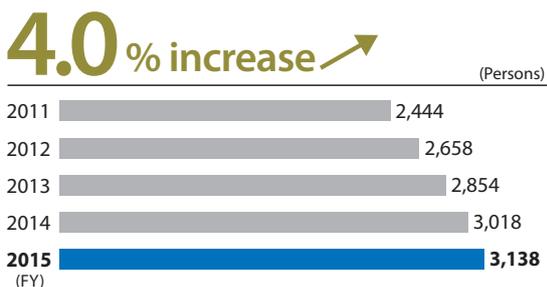


## Human Capital

### Increase in the Number of Female Employees

Female employees are working in all aspects of our operations, including as train crew members, and as of 2014 female employees accounted for about 10% of our workforce. JR-West will continue with our efforts to make our workplace one where female employees can take more active roles by enabling more employees to achieve a work-life balance.

Number of female employees (As of April, JR-West only)



## Natural Capital

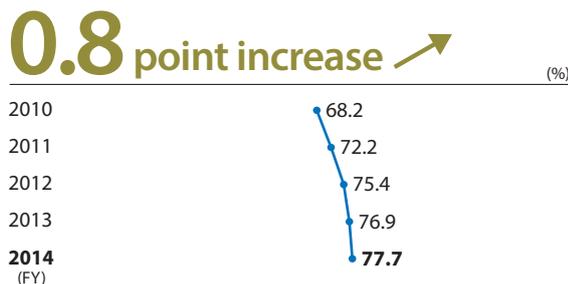
### Promoting Resource Conservation and Energy Saving

JR-West is constantly striving to reduce the amount of energy it uses in its transportation operations. In particular, we are working to reduce the amount of energy used to operate our trains by introducing energy-saving railcars, carrying out energy saving operations, and developing new technologies. Furthermore, we carefully sort the large amounts of garbage from stations and trains, which is then recycled as toilet paper and other products.

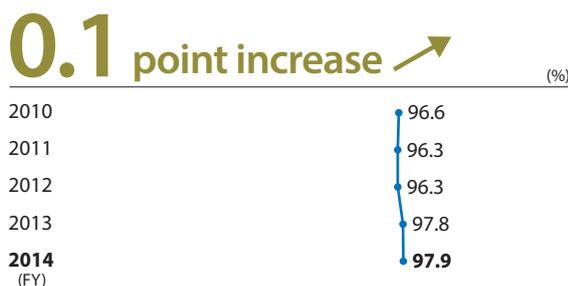
Energy consumption rate\*



Energy-saving railcars as a percentage of total railcars



Station and train garbage (recyclable) recycling rate



\* The energy consumption rate is the amount of energy consumed per rolling stock-kilometer (MJ / Rolling stock-km)

### Major Destination Campaign for Hiroshima

JR-West held the Hiroshima Destination Campaign\* for a three-month period between July 1 and September 30, 2013 in which we helped develop local tourism resources and drive visitor traffic.

As a result, we saw a 5.7% increase year on year in ridership on the Shinkansen (between Okayama and Hiroshima) and on conventional lines in the Hiroshima City Network Area. Additionally there was a 36.5% increase year on year in customers who purchased discount tickets, one-day travel products, or personalized travel products bound for Hiroshima.

\* Destination Campaign: A major tourism promotion campaign where the six JR Group companies work together with local governments and local tourism businesses to drive traffic from across Japan to a specific area.

Number of tourists visiting Hiroshima

**36.5%**  increase



### Osaka Loop Line Renovation Project

The JR-West Group launched the Osaka Loop Line Renovation Project. Efforts focus on improving customer satisfaction through enhancement of railway functions, and on generating new value for the line through the development and renovation of retail facilities at stations and under elevated tracks.

As part of this project, VIERRA TAMATSUKURI opened on March 18, 2014. It includes convenient retail facilities and childcare center, which play key roles in enhancing the daily lives of people living around the station.



### Rehabilitation-focused Day Services for Seniors

In order to develop new businesses as part of the Medium-Term Management Plan, JR-West is making inroads into the nursing care services business as part of our development of new business areas. In September 2012, we acquired a stake in POSSIBLE Medical Science, Ltd. and later increased this stake in January 2014. Through this involvement, we are working on rehabilitation-focused day services for seniors. We plan on further promoting the spread of rehabilitation-focused day services because of the effectiveness they have in supporting the independence of seniors. We will also aim to expand our business presence in the fields of community contributions and nursing care.



### Promoting Childcare Assistance

In Shiga Prefecture, with which JR-West has signed a comprehensive collaboration agreement, we have been examining possibilities for establishing children's daycare facilities adjacent to stations. We approached a local daycare operator about the idea and it opened a daycare center at Otsu Station on the Biwako Line, in April 2014. In addition, we operate "JR Kids Room" daycare facilities adjacent to stations to make our railway belts more convenient and appealing to people with children.



### Collaboration Agreements with Local Governments

One of the goals under the "Our Future Direction – The Ideal Form for JR-West" theme from the Medium-Term Management Plan is to be a "railway company that coexists with communities."

To achieve this goal, we continually engage the local community to share a vision for the future and methods for solving problems. We also work together to implement solutions because revitalizing local communities is the most important part of our actions. To further solidify these relationships, there have been several cases where we have concluded agreements with local governments or companies on comprehensive cooperation and collaboration.

We have concluded such agreements with Shiga Prefecture, Nara Prefecture, Tottori Prefecture, Shimane Prefecture, Matsue City as well as private sector companies, such as The San-in Godo Bank, Ltd. and The Chugoku Bank, Ltd., and Shimane University, and continue to collaborate closely with these partners.

For example, together with The Chugoku Bank, Ltd., which we have a business collaboration agreement with for local economic promotion in August 2013, we held product exhibitions called "Umaimono Ichi" for food companies in order to jump-start the local economy by marketing hidden local products. These exhibitions took place at JR Okayama Station and Fukuyama Station.



"Umaimono Ichi" at JR Fukuyama Station

# The President's Message



**Seiji Manabe**

President, Representative Director,  
and Executive Officer

In March 2013, JR-West formulated the JR-West Group Medium-Term Management Plan 2017 and the Safety Think-and-Act Plan 2017. These plans incorporate the Group's management vision, which states that "The JR-West Group will strive to contribute to the invigoration of the West Japan area through its business activities, and to that end we will strive to be a corporate group that excels in safety management and earns the trust of customers, communities, and society." In line with this vision, we have defined "Our Future Direction — The Ideal Form for JR-West." To realize "The Ideal Form for JR West," we have positioned the five years covered by the plan as a "period for contributing to the establishment of a foundation for decisive management."

Specifically, as we strive to realize "The Ideal Form for JR-West," we will fulfill our mission of continued operation of railway services as social infrastructure and we will work to contribute to the creation of a safe, comfortable society. As a "railway company that coexists with communities," we will contribute to the invigoration of communities by increasing the quality of railway operations and expanding the scale of non-railway operations. In this way, the JR-West is striving to achieve consolidated operating revenues of ¥1.4 trillion in fiscal 2031.

To make progress toward "The Ideal Form for JR-West," the entire Group is working to advance the priority strategies, which comprise the Three Basic Strategies (Safety, Customer Satisfaction, and Technologies) and the Four Business Strategies (Shinkansen, Kansai Urban Area, Other West Japan Area, and Business Development).

## Overview of Fiscal 2014

The past fiscal year marked the start of the Medium-Term Management Plan and its core component, the Safety Think-and-Act Plan.

In regard to safety, we implemented initiatives targeting the realization of five specific quantitative objectives, which include "no railway accidents that result in casualties among our customers" and "no labor accidents that result in fatalities among our employees" over the five-year period through fiscal 2018. However, in September there was a fatal labor accident involving an employee at an affiliated company. We deeply regret this incident, and we will continue to implement a variety of countermeasures in the future to prevent any recurrence and to achieve further increases in safety.

We implemented a variety of measures in line with our priority strategies. The Sanyo Shinkansen is facing increasing competition from airlines, and in response we introduced the new N700A Series rolling stock, which offers improved safety and comfort, and we expanded the range of highly price-competitive products. In lifestyle-related services, we developed a Via-inn budget hotel in Nagoya, which is outside our service area.

As a result of our ability to launch these types of initiatives and to ensure that the management plan got off to a solid start, we achieved increases in revenues and profits for fiscal 2014.

## The President's Message

### Initiatives in Fiscal 2015

In fiscal 2015, consumer sentiment is expected to worsen due to the increase in the consumption tax in April 2014. In addition, low-cost carriers and other airlines will commence flights on new routes and increase flights on existing routes, and the expressway network is scheduled to be extended further. In particular, we will incur costs to pave the way for future growth, including preparations for the opening of the Kanazawa segment of the Hokuriku Shinkansen and the thorough renovation of the West Wing of the OSAKA STATION CITY North Gate Building. As a result, the management environment is expected to become even more severe.

For the Hokuriku Shinkansen, we will move forward with thorough preparations for the opening of the Kanazawa segment and we will develop tourism routes in cooperation with communities and travel companies. In this way we will advance a variety of initiatives to maximize the positive effects of the opening. Further, in the thorough renovation of the North Gate Building, we will develop appealing stores in a manner that leverages the strengths of both department stores and shopping centers.

In sales of goods and food services, we will use business alliances to increase the appeal of stores in stations. In budget hotels, we will advance operational development by acquiring businesses from other companies. In these ways, we will make the most of tie-ups with companies that have abundant know-how as we strive to achieve growth over the medium to long term.

We expect conditions in fiscal 2015 to be challenging, but we are determined to build a foundation for increases



in corporate value over the medium to long term in fiscal 2016 and subsequent years. In addition, we will continue working to provide a long-term, stable return to shareholders.

I would like to ask our shareholders and investors for continued understanding and support in the years ahead.

April 2014

Seiji Manabe  
President, Representative Director, and Executive Officer

# Medium-Term Management Plan 2017

## Outline of Medium-Term Management Plan

To give shape to our management vision, the JR-West Group has announced “Our Future Direction—The Ideal Form for JR West.” We will implement the Priority Strategies, which comprise the Three Basic Strategies and the Four Business Strategies. In addition, we will proceed with Building Management and Operational Foundations, fulfill our responsibilities as a member of society, and take the Next Step as we work to realize the New JR-West Group for the next era.

## The “Form of the New JR-West Group” for the next era



## Financial Benchmarks

Consolidated operating revenues		Consolidated EBITDA		Consolidated ROA	
Fiscal 2018 forecast	Fiscal 2014	Fiscal 2018 forecast	Fiscal 2014	Fiscal 2018 forecast	Fiscal 2014
<b>¥1,306.0</b> billion	<b>¥1,331.0</b> billion	<b>¥292.5</b> billion	<b>¥288.4</b> billion	<b>4.7</b> %	<b>5.1</b> %

Note: Because this plan does not include the increases in revenues and railway usage fees accompanying the beginning of operations on the Hokuriku Shinkansen Line to Kanazawa (planned for the end of fiscal 2015, ending March 2015), it will be revised as required.

# Medium-Term Management Plan 2017

## Three Basic Strategies

### Safety

We will launch the Safety Think-and-Act Plan 2017.

#### Objectives for the five-year period through fiscal 2018 (Fiscal year ending March 31, 2018)

No railway accidents that result in casualties among our customers

**0** accidents

#### Fiscal 2014

**0** accidents

No labor accidents that result in fatalities among our employees

**0** accidents

**1\*** accident

\* A fatal accident occurred involving an employee of an affiliated company while on the job.

#### Objectives for fiscal 2018

Railway accidents with casualties on the platform

**30%** reduction

#### Fiscal 2014

**did not achieve reduction**

Accidents at level crossings

**40%** reduction

approx.

**20%** reduction

Transport disorders due to internal factors

**50%** reduction

approx.

**10%** reduction

#### Safety Think-and-Act Plan 2017

—Establishment of JR-West Group safety management

- Continual effort to realize safe, reliable transport service
- Increase level of risk assessment
- Increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life
- Investment in safety **①**

#### ① Investments in Safety (Safety Measures for Platforms)

Investments in safety represent one of the key pillars from the Safety Think-and-Act Plan formulated in March 2013. Currently, we are sustaining and enhancing the functions of existing facilities while also launching initiatives that will help realize higher levels of safety.

Safety measures for platforms represent one such initiative, and we are currently developing and testing various styles of platform gates in order to prevent customers from falling from the platform or from coming into contact with arriving or departing trains. Automatic platform gates (rope style) ensure platform safety by raising and lowering taut ropes. These gates can also accommodate rail cars with different door configurations. Based on the results of a trial project conducted at Sakurajima Station on the JR Yumesaki Line since December 2013, we plan on carrying out another trial project at Rokkomichi Station on the JR Kobe Line.



Automatic platform gates (rope style)



Movable platform gates



Platform fence for bypass lines

## Customer Satisfaction

We will implement customer-based initiatives to increase the value that we provide.

### Objectives for fiscal 2018

## Develop “fans” of JR-West

Key Index: Customer satisfaction survey result of **4.0 or above\***

\* five level, in-house survey

Fiscal 2014

3.67

### Key Measures

- Grasp customer expectations and work to meet diverse needs
- Build a railway with high transport quality
- Seek out customer feedback and work to enhance and improve services
- Actively provide customers and society with information about the measures that we implement

## Technologies

We will strive for continuous innovation.

### Objectives for fiscal 2018

Set target for practical implementation of on-board oriented train control system (wireless)

Complete battery-powered train performance testing

Complete verification of next-generation total operation control system

Produce gauge change testing trains, implement running testing

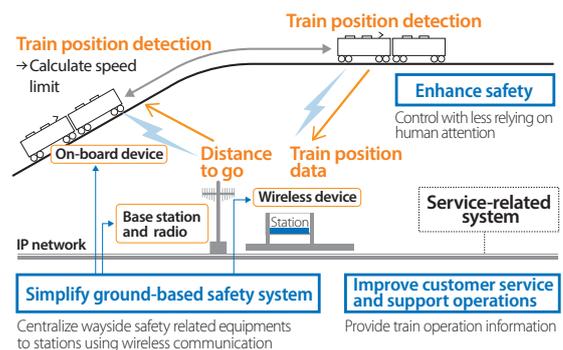
### Key Measures

- Promote technical development aimed at fostering a railway operations system change ②
- Take on the challenge of technical development of gauge change trains
- Nurture engineers deeply versed in each field of railway technology, and strive to resolve issues with technology
- Promote reductions in energy consumption and diversification of energy supply sources

## ② On-board Oriented Train Control System (Wireless)

—Japan Radio Train Control System (Wireless) (JRTC-W)

We are developing a new train control system JRTC-W using wireless communication with the aim of improving train safety and simplifying ground safety equipment. JRTC-W enables a train to run while calculating its own position and to perform brake control as needed with reference to information of speed limits (curves or gradient) which has been registered in the database of the vehicle control unit. The train can handle unexpected state changes in circumstances such as foregoing trains, temporary speed limits, emergency stops, accidents or weather conditions because the train communicates information on such changes to the ground commander continuously. In the future, following the current development of JRTC-W foundational technology, we plan to continue with development and test the system in preparation for the confirmation test on main line and for practical use.



# Medium-Term Management Plan 2017

## Four Business Strategies

### Shinkansen

We will enhance the potential of the Shinkansen and promote exchange.

#### Objectives for fiscal 2018

Number of senior customers traveling for leisure purposes

**10% increase**

Fiscal 2014

approx.

**2% increase**

Number of passengers using railway travel package and special tickets for visitors from overseas

**3-fold increase**

approx.

**1.7-fold increase**

Maximize the effects of the opening of the Hokuriku Shinkansen

#### Key Measures

- Further increase the safety and reliability of the Shinkansen
- Work to provide competitive transport services and to expand usage of those services
- Create new demand through enhancement of services for seniors and visitors to Japan
- Expand Shinkansen network 

#### Major investments

- Related to opening of Hokuriku Shinkansen
- New ATC
- Establishment of new maintenance bases and improvement of existing bases
- Earthquake countermeasures
- Countermeasures for mobile phone no-service areas
- Station facility refurbishment (Hiroshima)
- Introduction of N700A new model

### Kansai Urban Area

We will improve the value of the Kansai Urban Area.

#### Objectives for fiscal 2018

Transport disorders due to internal factors

**50% reduction**

Fiscal 2014

approx.

**10% reduction**

No. of IC card users\* per day

**2.2 million/day (+300,000)**

**2.05 million/day (+150,000)**

\* Including Okayama/Hiroshima

Increase resident satisfaction

#### Key Measures

- Build a railway that offers high-quality transport and is used repeatedly by customers
- Build sustainable railway system through appropriate maintenance
- Increase the value of railway belts, create areas adjacent to railway lines that people want to reside in and are easy to use
- Take steps to create an appealing Kansai Urban Area, such as enhancing the Osaka Loop Line
- Open new railway museum in the Kyoto Umekoji area, establish railway culture base (spring 2016)

#### Major investments

- Rolling stock replacement
- New safety system
- Increase facilities for turn back operation
- Increase safety at level crossings
- Disaster countermeasures (lightning, etc.)
- New stations (Maya (provisional name), Sojiji (provisional name))
- Station improvement (Sannomiya, Shin-Osaka, Tennoji, Amagasaki)
- Station building development (Takatsuki, Koshienguchi, Zeze)
- New railway museum building

### ③ Hokuriku Shinkansen

#### Maximize opening effects

1. Increase travel between Hokuriku and the Tokyo Metropolitan Area
  - Develop tourism routes in cooperation with communities and travel companies and carry out the Hokuriku Destination Campaign (Oct. – Dec. 2015)
  - Introduce a highly convenient Internet reservation service
2. Maintain and increase travel between Hokuriku and Kansai
3. Develop a Hokuriku route for travel between Kansai/Hokuriku and Nagano/Niigata



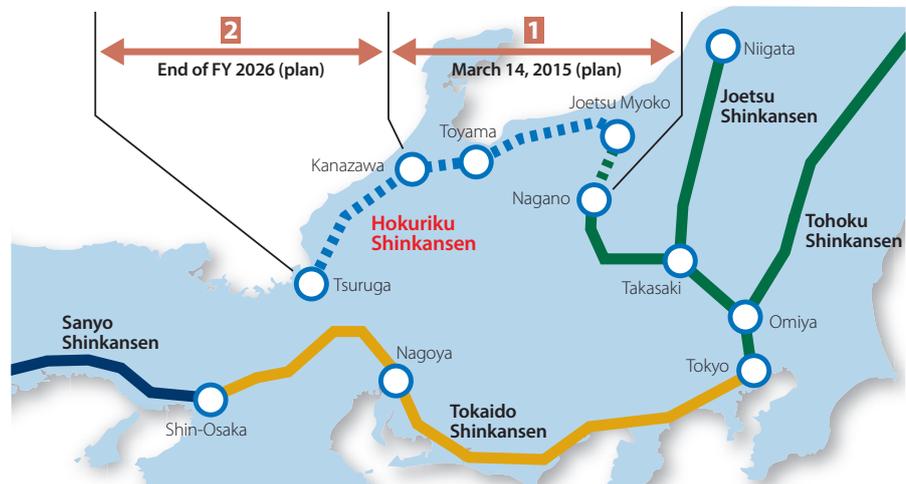
#### Overview of Hokuriku Shinkansen Line

	Nagano to Kanazawa (approx. 230km) <b>1</b>	Kanazawa to Tsuruga (approx. 130km) <b>2</b>
JR-West's service area	Joetsu Myoko to Kanazawa (approx. 170km) (JR-East: Tokyo to Joetsu Myoko)	Kanazawa to Tsuruga (approx. 130km)
Beginning of operations	March 14, 2015 (plan)	End of FY2026/3 (plan) (start of construction authorized on June 29, 2012)
Construction contractor	Japan Railway Construction, Transport and Technology Agency (JR-TT) (JR-West will operate commercial services, paying a usage fee to JR-TT that does not exceed the earnings received.*1)	
Travel time*2	Kanazawa to Tokyo: 2h 28m (-83m) Toyama to Tokyo: 2h 8m (-66m)	TBD
Rolling stock	Introduction of 10 trains planned (12 railcars per train)	Will advance practical application of Gauge Change Trains (GCT) to heighten convenience for passengers when changing between conventional lines and the Shinkansen at Tsuruga Station

\*1 Line usage fees are determined at a level (fixed amount) that does not exceed the earnings received and which balances JR-West's revenues and expenses over the 30-year period after beginning operations. We have not included the increase in revenues and line usage fees in this Medium-Term Management Plan because at the present juncture we have not determined the timetables and fare structures that form the basis of their calculation, making objective and rational calculation difficult.

\*2 Travel time of the fastest train. Figures in brackets ( ) are based on a comparison with the fastest train service using conventional lines from Tokyo as of September 2014.

#### Hokuriku Shinkansen Route Map



# Medium-Term Management Plan 2017

## Four Business Strategies

### Other West Japan Area

We will invigorate the strengths of other West Japan area.

#### Objectives for fiscal 2018

Number of users during destination campaigns

**10% increase**

#### Fiscal 2014

approx.

**16% increase**  
(Hiroshima DC)

Ongoing progress in promoting "businesses with close ties to areas," with the entire Group working together in cooperation with local companies and other partners in each area

Ongoing progress in fostering a shared understanding between the Company and local communities in regard to the best direction for regional transport

#### Key Measures

- Develop businesses with close ties to areas and move forward in tandem with communities
- Work together with local communities and strive to realize sustainable regional transport that reflects usage conditions

#### Major investments

- New luxury trains **4**
- New safety systems
- Change of rolling stock (Hiroshima region)
- New station (Hakushima (provisional name))
- Kabe Line extension
- Hiroshima Station development
- Station improvement, store development (Shimonoseki, Shin-Yamaguchi, Tokuyama)
- Relocation of Hiroshima General Hospital of West Japan Railway Company to new building
- Introduction of CTC in Okayama area

### **4** Roll out of New Luxury Sleeper Train

*A hotel running through beautiful Japan – nostalgia of fine quality -*

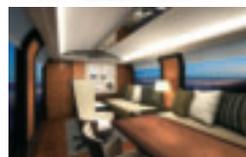
Under Medium-Term Management Plan, JR-West is working toward the goal of becoming a railway company that coexists with communities, and is taking measures to promote tourism together with local communities. As one of these measures, we will roll out a new sleeper train.

#### Overview of the train

1. Start of operations  
Spring 2017 (scheduled)
2. Service area  
To help guests rediscover the beauty of Japan, the train is scheduled to operate in the Kyoto, Osaka and Kobe, San-in, and Sanyo areas for the time being. These areas have a large number of historical and cultural points of interests, including World Heritage Sites, and guests will be able to enjoy beautiful scenery from the window.
3. Rolling stock
  - Train Configuration: 10 cars  
6 sleeper cars, 1 dining car, 1 lounge car, and 2 head cars with a viewing space
  - Guestrooms: Capacity of around 30 guests  
Two classes of guestroom (One class: 1 room per 1 railcar, Another class: 3 rooms per 1 railcar)



Exterior including view deck



Living room – 1 room per 1 railcar type



3 rooms per 1 railcar type

We will work to develop new businesses.

**Objectives for fiscal 2018**

Revenues from lifestyle-related service businesses **+ ¥25.0 billion**

**Fiscal 2014**  
approx.  
**+ ¥15.0 billion**

Revenues from new businesses **+ ¥1.0 billion**

approx.  
**+ ¥0.1 billion**

In 10 years, share of revenues contributed by the non-transportation segments (Retail, Real Estate, Other Businesses) **40%**

**36.0%\***

\* Share as of the fiscal year when Medium-Term Management Plan was launched (Fiscal 2013): 34.9%

**Key Measures**

- Expand lifestyle-related operations and provide support for the realization of comfortable daily lives **5**
- Increase the value of Group assets
- Continue to take on the challenge of new business fields
- Cultivate growth as a Group with consideration for the global market

**5 Business Alliance with Seven-Eleven Japan**

JR-West, its wholly-owned subsidiary West Japan Railway Daily Service Net Co., Ltd. and Seven-Eleven Japan Co., Ltd. have concluded a business alliance agreement with regards to the kiosk stores and convenience stores that the JR-West Group operates at its stations. We are currently moving to convert the existing stores at stations to allied stores and we will promote new allied store openings within our station retail store plan for the future.

- Convert the existing station retail stores (approx. 500) to allied stores over the next five years and take steps to enhance the attractiveness of stations  
⇒ We anticipate about a ¥20 billion boost in revenues, including from new store openings



## Operating Results by Business Segment

# Transportation Operations

JR-West's transportation operations segment consists of railway operations and small-scale bus and ferry services. Its railway operations encompass 18 prefectures in the western half of Japan's main island of Honshu and the northern tip of Kyushu, covering a total service area of approximately 104,000 square kilometers. The service area has a population of approximately 43 million people, equivalent to 34% of the population of Japan. The railway network comprises a total of 1,222 railway stations, with an operating route length of 5,015.7 kilometers, almost 20% of the total passenger railway length in Japan. This network includes the Sanyo Shinkansen, a high-speed intercity railway line; the Kansai Urban Area, serving the Kyoto–Osaka–Kobe metropolitan area; and other conventional railway lines (excluding the three JR-West branch offices in Kyoto, Osaka, and Kobe).



The Sanyo Shinkansen is a high-speed intercity passenger service between Shin-Osaka Station in Osaka and Hakata Station in Fukuoka in northern Kyushu. The line runs through several major cities in western Japan, including Kobe, Okayama, Hiroshima, and Kitakyushu. It has a total operating length of 644.0 kilometers and has 19 railway stations, including Shin-Osaka Station. JR-West owns the entirety of the railway facilities related to the existing Sanyo Shinkansen, and with the exception of Shin-Osaka Station (owned by JR-Central), operates all of the other 18 railway stations.

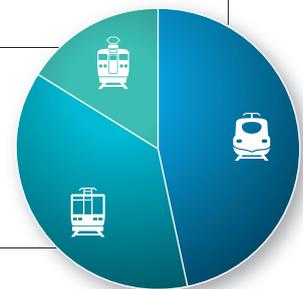
The Nozomi, Hikari, and Kodama services have been operating on the Sanyo Shinkansen Line for some years. Many of the Nozomi services allow passengers to travel from Tokyo or Nagoya

### Railway Revenues

#### Sanyo Shinkansen

#### Other Conventional Lines

#### Kansai Urban Area (Kyoto–Osaka–Kobe Area)



to the major stations of the Sanyo Shinkansen Line, such as Okayama, Hiroshima, and Hakata, without changing trains. These services are enabled by direct services with the services of the Tokaido Shinkansen Line, which Central Japan Railway Company (JR-Central) operates between Tokyo and Shin-Osaka. In addition, following the March 12, 2011 commencement of operations on all lines of the Kyushu Shinkansen, JR-West launched the Mizuho and Sakura services, which travel directly between the Sanyo Shinkansen and Kyushu Shinkansen lines. These new services enable customers to travel between Shin-Osaka and Kagoshima-Chuo in as little as 3 hours and 42 minutes.

### Transportation Revenues

# 364.4

 Billions of yen

(Billions of yen)



### Number of Passengers

# 67

 Millions of passengers

(Millions of passengers)





## Core Initiatives

### Enhance

For the Shinkansen, work to further increase safety and reliability, and provide competitive transportation services, while also creating new demand by expanding services for seniors and foreign tourists. Press ahead with preparations for the start of Hokuriku Shinkansen service to Kanazawa, and promote exchanges among people, to enhance the potential of the Shinkansen.

### Key Measures

#### (1) Sustain sound facilities and services into the future, and enhance ability to respond to natural disasters

- Maintain and manage tunnels, elevated railway tracks, and other structures appropriately
- Advance earthquake and tsunami countermeasures and derailment prevention measures
- Advance the introduction of new ATC systems

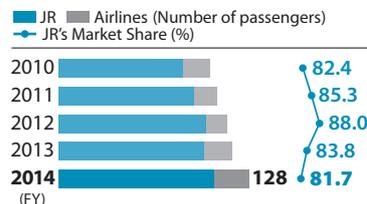
#### (2) Increase market share by heightening competitiveness

- Shorten travel time and enhance frequency and improve on-board communication environment, increase membership of the highly convenient Internet reservation service
- Enhance safety and comfort by introducing N700A (Dec. 2013~) and modifying 16 N700 Series trains (~ Fiscal 2016/3)

#### (3) Expand business area by creating new demand

- Spur travel demand among seniors: Leverage senior membership services and launch sales of discount tickets for seniors
- Capture inbound demand: Develop West Japan tourism routes and products and strengthen promotions in South East Asia, improve systems to support foreign travelers such as information services in foreign languages and free public Wi-Fi

#### Kyoto-Osaka-Kobe Area to Fukuoka



Note: Figures for the fiscal year ended March 2014 are preliminary. Each graph bar represents the number of passengers using JR and the number of passengers using airlines; the bars indicate the total number of passengers using JR or using airlines compared to the base year index of 100 (the fiscal year ended March 1997).

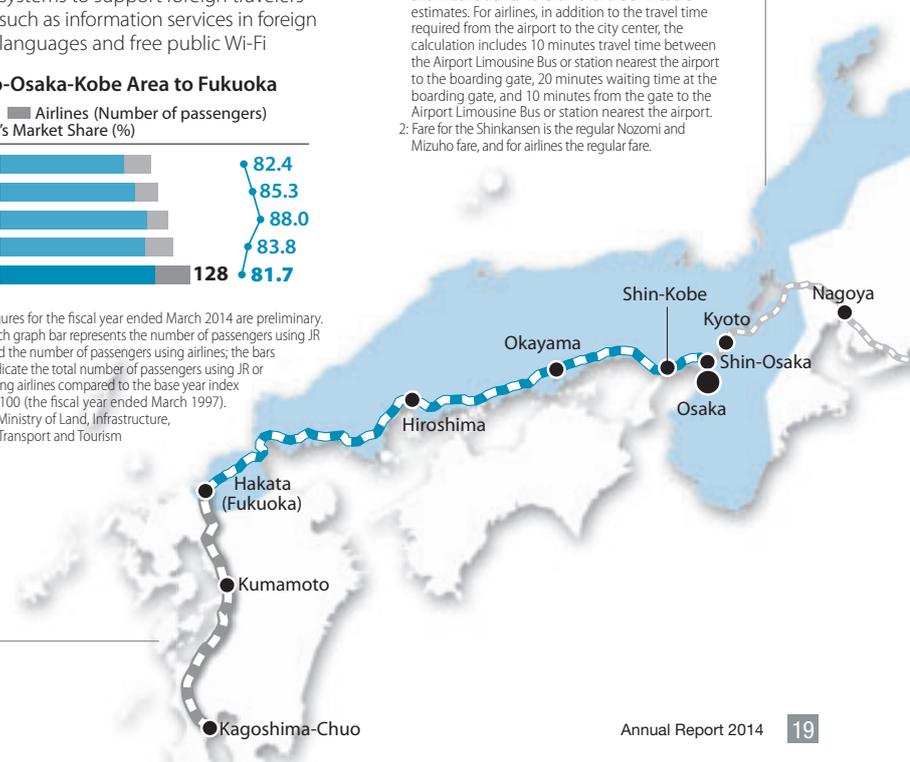
Source: Ministry of Land, Infrastructure, Transport and Tourism

#### Kyoto-Osaka-Kobe Area to Fukuoka

(As of April 1, 2014)	Travel Time	Fare	Frequency
<b>Shinkansen</b>	<b>2h 22m</b>	<b>¥15,310</b>	<b>59</b>
<b>Airlines (Itami Airport)</b>	2h 20m	¥ 22,500	14
<b>Airlines (Kansai Intl. Airport)</b>	3h 00m	¥ 22,500	7(6)

Travel Time and Fare: JAL or ANA  
Frequency: All airlines. Numbers in parentheses are frequency excluding those of JAL or ANA.

Notes 1: Travel time for the Shinkansen is the shortest on Nozomi and Mizuho trains. Travel time for the airlines are estimates. For airlines, in addition to the travel time required from the airport to the city center, the calculation includes 10 minutes travel time between the Airport Limousine Bus or station nearest the airport to the boarding gate, 20 minutes waiting time at the boarding gate, and 10 minutes from the gate to the Airport Limousine Bus or station nearest the airport.  
2: Fare for the Shinkansen is the regular Nozomi and Mizuho fare, and for airlines the regular fare.





The Kansai Urban Area comprises the densely populated metropolises and surrounding areas of Kyoto, Osaka, and Kobe. (Population of the Kyoto–Osaka–Kobe metropolitan area is more than 20 million.) It has an operating route length of 946.0 kilometers, forming a comprehensive network stretching across the entire Kyoto–Osaka–Kobe Area.

The Kansai Urban Area includes the section of the Fukuchiyama Line between Tsukaguchi Station and Amagasaki Station, the location where JR-West caused a terrible accident on April 25, 2005, resulting in a substantial loss of the trust we have built with customers and society. We recognize that redoubling our efforts to prioritize safety and regaining that trust is one of our highest management priorities.

Furthermore, we held the grand opening of Osaka Station—the largest JR-West-operated hub station—as OSAKA STATION CITY on May 4, 2011. Osaka Station serves as the gateway to the Kansai region as well as the gateway into Osaka itself. For this reason, we hope that OSAKA STATION CITY will serve as a new landmark in Osaka, a landmark that embodies a sense of flair and sophistication befitting its role as a gateway. This strong desire was a key factor in our naming of OSAKA STATION CITY. Furthermore, it is our wish that it will come to be loved by all who visit it as a “city” that is both highly appealing and convenient.

Transportation Revenues

**292.1** Billions of yen



Number of Passengers

**1,488** Millions of passengers



- Boundary Stations between JR-West and Other JR Companies
- Shinkansen Line (Bullet Train)
- Intercity Lines
- Regional Lines
- Osaka Loop Line
- JR Kobe Line (Osaka–Himeji)
- JR Kyoto Line (Osaka–Kyoto)
- Biwako Line (Kyoto–Nagahama)
- JR Tozai Line (Kyobashi–Amagasaki)
- JR Yumesaki Line (Nishi-Kujo–Sakurajima)
- JR Takarazuka Line (Osaka–Sasayamaguchi)
- Sagano Line (Kyoto–Sonobe)
- Gakkentoshi Line (Kyobashi–Kizu)
- Nara Line (Kyoto–Kizu)
- Yamatoji Line (JR-Namba–Kamo)
- Hanwa Line (Tennoji–Wakayama)
- Kansai Airport Line (Hinenno–Kansai Airport)
- Osaka Higashi Line (Hanaten–Kyuhoji)

# Core Initiatives

## Improve

For the Kansai Urban Area, pursue higher levels of safety and implement thorough going measures for reliable transport to build a railway that offers high-quality transport and is used repeatedly by customers. Also, enhance the Osaka Loop Line to increase the value of railway belts and improve the appeal of urban areas.

### Key Measures

#### 1) Increase quality of transport

- Pursue safe, reliable transport service, replace rolling stock, introduce new safety system, increase safety of level crossings, increase facilities for turn back operation, take natural disaster countermeasures

- Increase and improve guidance for customers during transport disruptions

#### 2) Create an appealing Kansai Urban Area

##### (1) Create railway belts that are easy to use and where people will want to reside

- Convert to over-track stations and build new stations that integrate with community development : Osaka Loop Line Renovation Project
- Enhance lifestyle-related services

##### (2) Advance urban tourism

- Boost demand by leveraging the opening of "USJ Harry Potter"
- Disseminate information through mainly our website

##### (3) Build a more convenient railway network

- Advance projects such as construction of the Osaka Higashi Line (northern section) and Nara Line double track
- Consider building new underground station accompanying Umekita development
- Establish new stations



The OSAKA POWER LOOP promotional train wrap launched as part of the Osaka Loop Line Renovation Project





### Other Conventional Lines

JR-West's other conventional lines comprise intercity transport provided by limited express and express services, regional transport for commuters and students in and around regional hub cities such as Hiroshima and Okayama, and local lines with low transport density. The other conventional lines have an operating route length of 3,425.7 kilometers.

The operating environment for other

conventional lines continues to be difficult due to the declining population of the areas they serve. However, considering that this network plays a role as a feeder for Shinkansen services as well as functions as a vital part of the overall JR-West railway network, we are working to provide more community-oriented services and undertake other management efforts, while placing priority on ensuring safety.



### Bus and Ferry Services

JR-West's transportation operations segment includes bus and ferry services. In our bus services, we have endeavored to increase customer convenience by implementing flexible fares reflecting usage trends.

In our ferry services (the Miyajima Line), we have focused on securing revenues through initiatives like marketing activities targeting travel companies.



## Fiscal 2014 Results

Operating revenues for the Transportation Operations segment increased 0.8% from the previous fiscal year to ¥851.3 billion, with operating income up 1.0% to ¥91.0 billion.

In transportation operations, the usage of the Sanyo Shinkansen and conventional lines was positive as a result of increases in the frequency of Shinkansen services and limited express services on conventional lines, mainly during the Obon holidays and the year-end and New Year holidays. We also took steps to enhance convenience with timetable revisions implemented in March 2014 that included on the Shinkansen lines, a partial revision of the operating structure of Nozomi and Sakura services and an increase in the frequency of Mizuho trains, as well as on conventional lines, an increase in the frequency of Biwako Express limited express trains. In addition, in anticipation of the opening of the Kanazawa segment of the Hokuriku Shinkansen in spring 2015, we established a special preparatory office. In October 2013, we decided on train names and their service schemes, and in December, began conducting tests on certain rail segments.

For the sections of the San-in Line, Yamaguchi Line, and Sanko Line where services remain suspended from 2013 as a result of heavy rains, we have made a concentrated effort to restore services. (Services on the Sanko Line resumed on July 19, 2014.)

In marketing initiatives, to compete with other modes of transport, we launched "Super Haya-toku" early discount tickets and made efforts to promote the use of the Shinkansen through such initiatives as "Remember Kyushu Campaign" to firmly establish the use of direct through-services between the Sanyo and Kyushu Shinkansens and the "Detective Conan Kumamoto/Aso Mystery Tour." We also drew customers from throughout

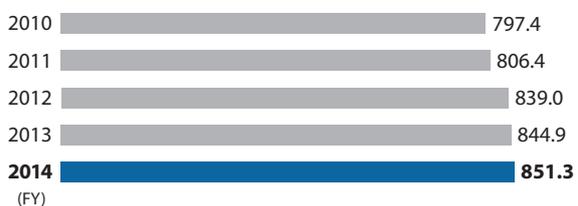
Japan with the "Hiroshima Destination Campaign" and worked to stimulate tourism in cooperation with local communities, including the "Discover Shin-Hokuriku! Campaign" and the "Japanese Beauty Hokuriku Campaign," as part of an effort to increase the use of railways to the Hokuriku region. We also expanded services for overseas visitors to Japan, including the launch of free public Wi-Fi services at major stations, and the addition of frequently asked questions by customers on our global website regarding the use of JR West Japan lines. Furthermore, we took steps to enhance services for seniors, including expanding products for Zipangu Club members, and launching sales of the "Nori-nori Kippu" tickets for passengers over 60 years old. For the ICOCA e-money service, we worked to enhance usage convenience for customers by expanding the usage area through alliances with Nankai Electric Railway Company and JR Shikoku. To contribute to the continued development of local communities and railway services, we, in close cooperation with local governments and companies, implemented measures to achieve "coexistence with communities," such as development of communities centering on the stations and regional renovations.

### Operating Revenues

# 851.3

Billions of yen

(Billions of yen)

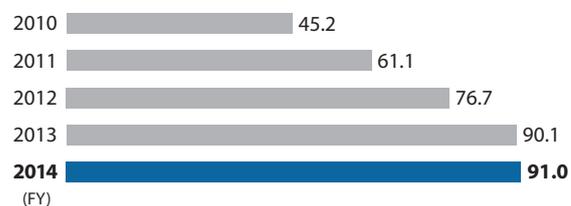


### Operating Income

# 91.0

Billions of yen

(Billions of yen)



# Non-Transportation Operations

JR-West's non-transportation operations segment comprises three operations: retail business, real estate business, and other businesses. Those operations contribute to the sustainable growth of the Group as a whole by vigorously taking advantage of their assets, improving services for customers using railway services and customers in areas alongside railway lines, as well as providing high-quality services that are safe and reliable to further increase the appeal of railway stations and earn the increased trust of customers. The Railway Operations Headquarters and the Business Development Headquarters will increase the value of its railway belts through initiatives that entail collaboration with local communities to develop individual railway stations and their surrounding areas.

In development initiatives, our basic approach is to clarify management responsibility in order to accelerate operational development and pursue development through Group companies. In

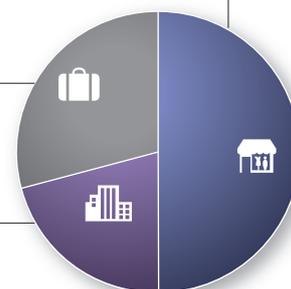
accordance with that approach, we will develop commercial facilities in and around railway stations as well as areas between railway stations, and conduct operations that use idle land for the development and sales of condominiums. Also, in order to foster earnings mainstays for the next era, JR-West is furthering initiatives to create new businesses through collaborations both inside and outside the Group.

## Non-Transportation Revenues

### Retail Business

### Other Businesses

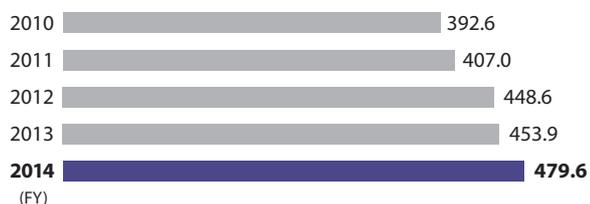
### Real Estate Business



## Operating Revenues

**479.6** Billions of yen

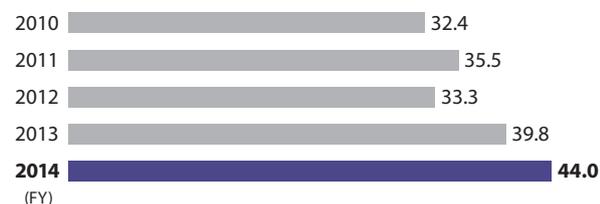
(Billions of yen)



## Operating Income

**44.0** Billions of yen

(Billions of yen)





JR-West's retail services, centered on railway passengers, consist of convenience stores, specialty stores, and food and beverage outlets located in and around station buildings, as well as department stores such as JR Kyoto Isetan department store.

### Fiscal 2014 Results

Operating revenues in the Retail Business segment rose 2.3% from the previous fiscal year to ¥240.1 billion, with operating income of ¥4.4 billion.

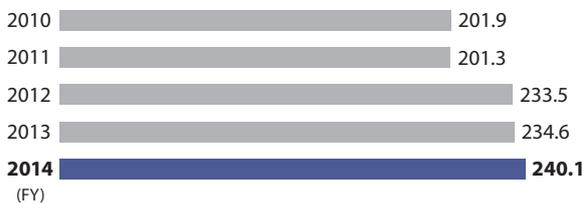
For the JR Osaka Mitsukoshi Isetan department store, the Group worked to offer highly original goods and services. In response to the tight commercial climate surrounding the department store, the Group

took steps to establish shops that appeal to local customers, and is considering fundamental measures aimed at business revitalization. The Group also took steps to enhance the appeal of stations, including for Sannomiya Station, opening an Entree Marche hybrid convenience store, along with fashion and variety goods stores, for Osaka Station, opening an Eki QoI Pharmacy JR Osaka Store, an in-station dispensing pharmacy, and for the Fukuyama Station, opening restaurants and other stores at its south exit. The Group also opened a budget hotel called Via-inn Nagoya. In July 2013, we merged two consolidated subsidiaries in the San-in area with differing industries and types of business, with the aim of developing and operating more convenient and attractive commercial facilities.

#### Operating Revenues

**240.1** Billions of yen

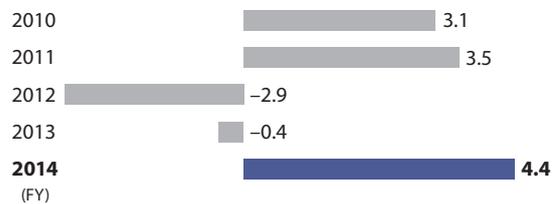
(Billions of yen)



#### Operating Income

**4.4** Billions of yen

(Billions of yen)



JR-West's real estate business consists of the management of shopping centers in station buildings and other facilities, the operation of large station buildings at hub railway stations, the development of commercial facilities near railway station areas and underneath elevated tracks, and real estate sales and leasing operations for residential and urban development focused on railway lines.

### Fiscal 2014 Results

Operating revenues for the Real Estate Business segment increased 12.5% from the previous fiscal year to ¥102.2 billion, with operating income down 0.8% from a year earlier to ¥27.7 billion.

The Group moved forward with the development of stations and surrounding areas. At the Himeji Station Building, completed in April 2013, the Group

opened "piole HIMEJI" in conjunction with the renovation of the shopping center underneath the elevated tracks. The Group also opened a new station building at Nada Station, a Higashi-Maizuru Station Building and a Shimonoseki Station Building called "ripie." As part of the Osaka Loop Line Renovation Project, the Group opened VIERRA TAMATSUKURI at Tamatsukuri Station. Further, the Group renovated and

reopened the MEDIO Shin-Osaka fashion zone at Shin-Osaka Station, as well as Porta and The Cube at Kyoto Station. To stimulate business in the entire area around Osaka Station, the Group conducted area management activities in association with local business operators. In addition, the Group made efforts to utilize former sites of company housing, by developing residential buildings and leasing land to an education institution.

### Operating Revenues

# 102.2

 Billions of yen

(Billions of yen)



### Operating Income

# 27.7

 Billions of yen

(Billions of yen)



### Other Businesses

JR-West's other businesses consist of the travel agency business operated by Nippon Travel Agency, the hotel business, an advertising agency business, maintenance and engineering services, and other businesses to facilitate the smooth and efficient operation of the mainstay railway business.

### Fiscal 2014 Results

Operating revenues for the Other Businesses segment increased 6.8% from the previous fiscal year to ¥137.1 billion, with operating income down 4.0% to ¥11.8 billion.

In hotel operations, the Group worked to expand sales through such measures as hosting various events. In travel agency operations, the Group expanded internet retailing, and took steps to increase sales of products that utilize railways.

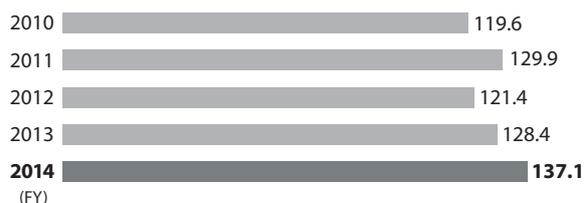
For the J-West Card, the Group made efforts to acquire cardholders through an online application service and by running a campaign to waive the membership fee for the first year. For the ICOCA e-money service, the Group maximized the effect of nationwide reciprocal services of transport IC cards that started in March 2013, and worked to expand opportunities to use the services, including introducing services at large commercial facilities outside of stations. The Group also conducted a variety of campaigns to mark the 10th anniversary of ICOCA, and made efforts to promote its use. In addition, the Group developed and nurtured new businesses, including the launch of a "Rail & Car Share" service at Shinkansen stations and 12 major stations in the Kyoto-Osaka-Kobe region.

## Operating Revenues

# 137.1

Billions of yen

(Billions of yen)



## Operating Income

# 11.8

Billions of yen

(Billions of yen)



## Core Initiatives

### Develop

In the area of business development (non-transportation operations), expand lifestyle-related services businesses, increase Group asset value by advancing development of terminal stations and thoroughly renovating OSAKA STATION CITY's North Gate Building, and foster new business development by developing and pioneering new business fields.

#### Key Measures

##### 1) Sales of goods and food services

- (1) **Renovate retail shops in stations when stations are upgraded**
- (2) **Aggressively develop areas other than those adjacent to railway lines and within the JR-West service area**
  - Transfer of budget hotel operations from ORIX Group

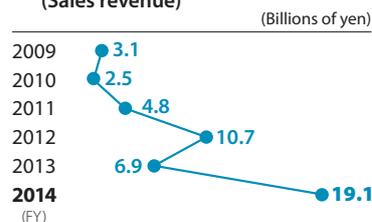
##### 2) Department stores

#### Thorough renovation of the West Wing of the OSAKA STATION CITY North Gate Building

- Make the department store specialize in fields where they have a competitive advantage and create a new facility by leveraging strengths of shopping centers and department stores
- Sales Targets  
Approx. ¥80.0 billion total for East Wing (SC: Lucua) and West Wing
- Outlook for profitability  
West Japan Railway Isetan Limited: Profitable in Fiscal 2016/3
- Opening schedule  
In spring 2015 (Plan)  
(Start of renovation work on July 28, 2014)

##### 3) Real Estate Business

#### (1) Advance sales of condominiums (Sales revenue)



#### (2) Advance development and renovation

Kanazawa, Shin-Osaka, etc.

## Current Main Topics

### Promote a railway operations system change

- **Additional share acquisition and business alliance: Asia Air Survey Co., Ltd.**
  - By bolstering collaboration, further increasing safety, saving maintenance works, and reinforcing disaster measures

### Expand lifestyle-related services

- **Business alliance with Seven-Eleven Japan**
  - Convert current in-station stores (approx. 500 stores) to allied stores within about 5 years
- **Transfer of budget hotel operations from ORIX Group**
  - Re-brand open of 3 hotels as "Via-inn" (Jun. 2014)

### Enhance the value of group assets

- **Thorough renovation of the West Wing of the OSAKA STATION CITY North Gate Building**
  - Renovate to create an entirely new, attractive facility by leveraging strengths of shopping centers and department stores (Spring 2015)

### Cultivate new business fields by leveraging assets and technologies

- **Day service business specializing in rehabilitation**
  - Expand businesses by making POSSIBLE Medical Science a subsidiary
- **Internet retailing for customers overseas**
  - Internet retailing of local goods and provision of information (Business Alliance with Navibird, Inc.)

### Consider participation in businesses around major stations

- **Share Acquisition: Kobe Chikagai Co., Ltd.**
  - Contribute to revitalization of the Sannomiya area through cooperation with companies in the surrounding community

### Enhance the safety and quality

- **Include DAITETSU KOGYO CO., LTD. in the scope of consolidation**
  - Enhance the safety and quality of the JR-West Group's construction operations

# CSR Overview

## Pursuing Think-and-Act Initiatives to Realize Our Corporate Philosophy

The JR-West Corporate Philosophy and Safety Charter form the foundation of our management. Created in the wake of the Fukuchiyama Line accident, we consider our Corporate Philosophy to be a contract with society that we decided after extensive discussion among all executive officers and employees, based on our determination to be a company that places top priority on safety and to never again allow a serious

accident to happen. Therefore, we consider putting our Corporate Philosophy into practice to be the CSR of JR-West. Our Corporate Philosophy and Safety Charter foster in all of our executive officers and employees a common attitude that they bring to work of steadily increasing safety and CS; responding to the expectations of customers, society, shareholders, suppliers, and other stakeholders; and achieving sustainable development into the future. Toward that end, JR-West is committed to continuously thinking and acting as a unified entity.

### Corporate Philosophy

- 1 We, being conscious of our responsibility for protecting the truly precious lives of our customers, and incessantly acting on the basis of safety first, will build a railway that assures our customers of its safety and reliability.
- 2 We, with a central focus on railway business, will fulfill the expectations of our customers, shareholders, employees and their families by supporting the lifestyles of our customers, and achieving sustainable growth into the future.
- 3 We, valuing interaction with customers, and considering our business from our customers' perspective, will provide comfortable services that satisfy our customers.
- 4 We, together with our group companies, will consistently improve our service quality by enhancing technology and expertise through daily efforts and practices.
- 5 We, deepening mutual understanding and respecting each individual, will strive to create a company at which employees find job satisfaction and in which they take pride.
- 6 We, acting in a sincere and fair manner in compliance with the spirit of legal imperatives, and working to enhance corporate ethics, will seek to be a company trusted by communities and society.

### Safety Charter

We, ever mindful of the railway accident that occurred on April 25, 2005, conscious of our responsibility for protecting the truly precious lives of our customers, and based on the conviction that ensuring safety is our foremost mission, establish this Safety Charter.

- 1 Safety is ensured primarily through understanding and complying with rules and regulations, a strict execution of each individual's duty, and improvements in technology and expertise, and built up through ceaseless efforts.
- 2 The most important actions for ensuring safety are to execute basic motions, to rigorously enforce safety checks, and to implement flawless communication.
- 3 To ensure safety, we must make a concerted effort, irrespective of our organizational affiliation, rank, or assignment.
- 4 When uncertain about a decision, we must choose the most assuredly safe action.
- 5 Should an accident occur, our top priorities are to prevent concomitant accidents, and to aid passengers.

## Relationship between Stakeholders and the JR-West Group

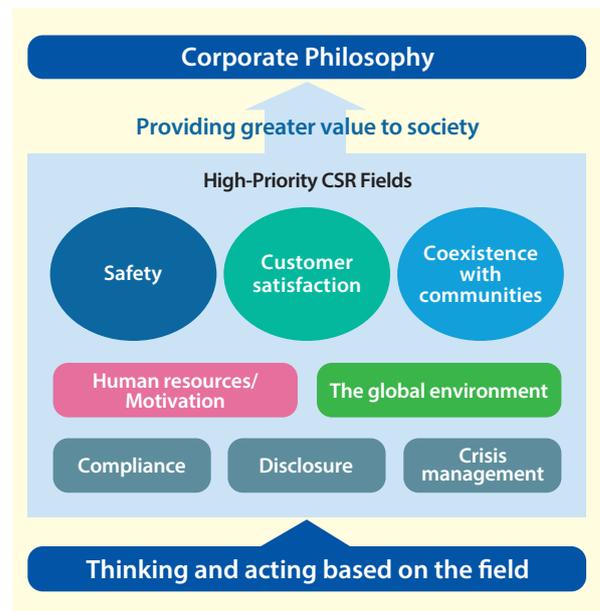
Having employees who are motivated, take pride in their work, and provide high-quality service results in satisfaction and a sense of safety and peace of mind for customers, and contributes to the invigoration of the West Japan area. With the profits earned under such conditions we will assure the sustainability of operations, and build good relationships with shareholders and suppliers.



## Pursuing CSR by Thinking and Acting Based on the Field

In order to uphold our Corporate Philosophy and provide greater value to society through our business activities, we have specified eight high-priority CSR fields in reflection of society's demands.

To maintain reliable railways that passengers can use safely and with peace of mind, we believe it is important for all JR-West Group employees at all of our workplaces to maintain a constant awareness of customers, to share the common understanding of the various issues that arise at front-line work sites, and to autonomously and collaboratively work to solve them with a sense of urgency. The JR-West Group pursues CSR by having every one of our employees embrace this "thinking and acting based on the field" as the guiding principle of conduct.





**FTSE4Good**

In 2014, FTSE Group confirms that JR-West has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. JR-West has been consecutively included in the index series since 2002.

Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

# Safety

## Basic Approach

Safety is the highest priority of JR-West. To establish a corporate culture that places top priority on safety, we are moving forward with various tangible and intangible initiatives. Safety is the core strategy of the JR-West Group Medium-Term Management Plan 2017 we formulated in March 2013, and we aim to attain higher levels of safety by steadily implementing our new Safety Think-and-Act Plan.

Having caused the Fukuchiyama Line accident, JR-West will continue to focus on implementing, as a critical safety measure, the risk assessments we introduced in light of our inability to prevent that accident. In addition, we will move forward with various initiatives aimed at ensuring employees of the JR-West Group never forget the Fukuchiyama Line accident and can implement think-and-act measures putting human life

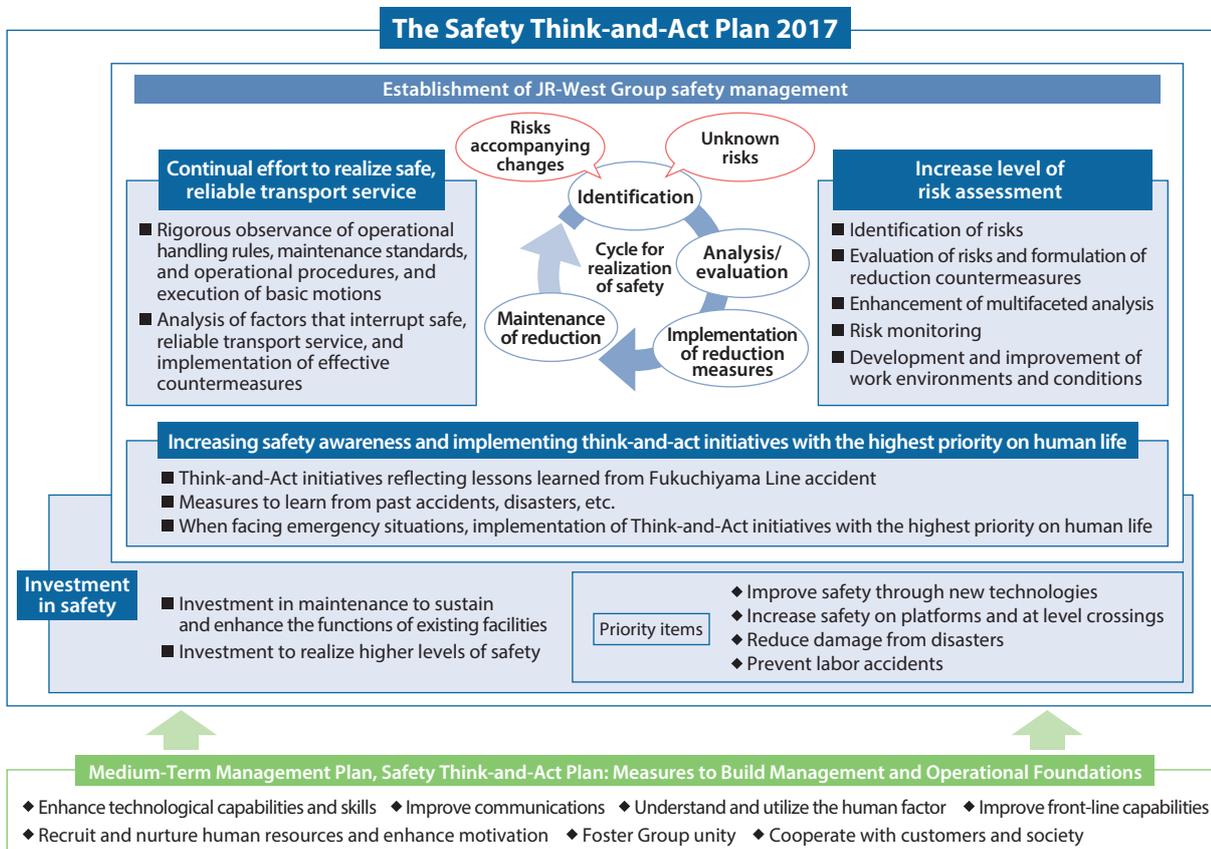
and safety above all else. Supplementing these intangible steps with ongoing and proactive equipment maintenance and renovation, new technology development, and other safety-related investments, we are committed to attaining higher levels of safety in our operations.

Furthermore, the JR-West Safety Follow-up Meeting, in which company executives participate, held wide-ranging discussions on what was lacking or insufficient in our structures for safety management and railway administration at the time of the accident, based on our current knowledge of the human factors and the like. The conclusions were summarized in a report. Moving forward, JR-West will intensify our scrutiny of how best to implement the details discussed in order to pursue an even higher level of safety.

## The Safety Think-and-Act Plan 2017

JR-West established the Safety Think-and-Act Plan 2017 in March 2013 as a concrete plan for the fundamental strategy of "safety" in the JR-West Group Medium-Term Management Plan 2017. This is based on our reflections on the Basic Safety Plan, our reflections and investigations carried out after the Fukuchiyama Line accident, and new knowledge and experience assembled from inside and outside the company.

The pillars of this plan are continual effort to realize a safe, reliable transport service; increasing the level of risk assessment; increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life; and investment in safety. The level at which we aim through activity in these areas is expressed by a five point numerical scale.



## Increase Level of Risk Assessment

Risk assessment consists of quantifying risks and taking appropriate actions for matters that should be addressed as high priorities, and we are implementing risk assessment in all of our front-line work sites and branches, and in our head office.

In fiscal 2014, in addition to ongoing initiatives, We engaged in "Fixed-theme risk assessments," by which we identified and addressed unknown risks and risks consequent on changes with respect to themes for which the potential for a serious event was envisaged from cross-sectional, and specialist knowledge.

We also prepared a new Risk Assessment Handbook in March 2014, in a move to further stimulate risk assessment initiatives. The handbook was distributed to all employees and also provided to group companies.



Risk Assessment Handbook

## Increasing Safety Awareness and Implementing Think-and-Act Initiatives with the Highest Priority on Human Life

### — Implementing Think-and-Act Training

To cultivate an awareness of teamwork between conductors, drivers and controllers, and to investigate methods by which to maintain composure during an emergency, we developed a railway version of the Crew Resource Management (CRM) enacted in aviation and other industries, and have implemented it as an error avoidance skill improvement program from fiscal 2014.

As one of this program, "the Think-and-Act Training" is implemented with the aim of training crew members to be able to accurately assess the situation, think flexibly, and take the most suitable action for the prioritization of human life when faced by a large-scale disaster. Approximately 8,500 employees attended the program in fiscal 2014.

## Investment in Safety

JR-West's railway system is operated by various equipment and facilities. In order to properly maintain these and improve safety, we invest in equipment and facilities that are specifically for safety and disaster prevention.

In the Safety Think-and-Act Plan, we embarked on work to sustain and enhance the functions of existing facilities, and to realize higher levels of safety in our operations. We plan to invest a total of approximately ¥470 billion in safety measures over the five years of the plan. In fiscal 2014, the first year of the plan, we invested ¥89.3 billion in safety.

## Level Crossing Safety Measures



### Omnidirectionally visible level crossing warning lights

JR-West is moving forward with the installation of level crossing warning lights that can be seen from all directions.

### Fracture resistant crossbars

We are proceeding with the installation of crossbars that do not fracture and easily return to their original shape.

## Rolling Stock Safety Measures



### Falling prevention barrier

To prevent falling from the platform into gaps between coupled trains, we are moving forward with the installation of protective barriers.

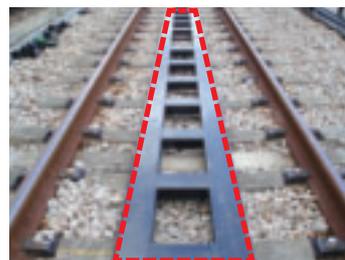
## Platform Safety Measures



### Platform emergency button

During an emergency, such as when a customer falls from the platform, a push of a platform emergency button notifies station employees and crew members of the problem.

## Disaster Safety Measures



In addition to the earthquake resistance reinforcement of bridge piers and stations, we are moving forward with the installation of derailment prevention guards for Shinkansen.

## Installation of Automatic Train Stop (ATS) Equipment



JR-West is installing ATS equipment for preventing accidents due to excessive speed.

# Customer Satisfaction

## Basic Approach

The JR-West Group is in charge of an enterprise that is of immense significance to the public. As such, we aim to continue to provide services that will make customers into “fans of JR-West.” We will do this by continuing our practice of customer-oriented management to enhance the value we provide, based on the confidence placed in us by our customers and society.

Toward that end, it is critical that we grasp our customers’ needs and expectations, and steadily reflect this information in safety and services based on social trends. We must also provide value that satisfies our customers through coming up with our own ideas on what our customers expect and consistently acting on these ideas.

Increasing transport quality is an issue of particularly great importance. By implementing meticulous, stable transport measures and enhancing our ability to provide information from the customer’s perspective, we will continue working in order that our customers can use our services with peace of mind and confidence.

Furthermore, in addition to responding to customer voices swiftly and with sincerity and promoting the enhancement and improvement of services, we will broadly communicate our initiatives to obtain society’s understanding of JR-West.

In order that even more customers become “fans of JR-West,” we will embed such initiatives in the corporate culture and aim to achieve customer-oriented management.

## Taking on Board Customer Voices to Promote the Enhancement and Improvement of Services

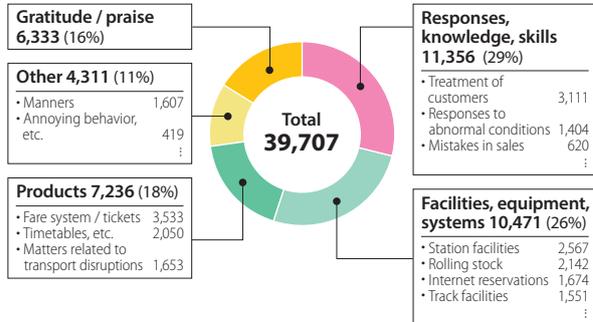
Since its establishment, JR-West has continually worked to listen carefully to customer voices in order to apply the information in measures to improve services and the like. Consisting of opinions, requests, inquiries, and other feedback, customer voices are received directly by station staff and train crew, and through suggestion boxes established at main stations. In addition, the JR-West Customer Center responds to inquiries and the like made by phone and email. Stations, branch offices and the Customer Center coordinate with relevant departments to respond rapidly to the customer voices received, and are careful to diligently report the progress in the case measures based on the opinions take time to implement.

We received roughly 40,000 customer voices in fiscal 2014. All of these have been input into a database in order to identify trends in requests, and are put to use in drafting and promoting measures from the customers’ perspective through extracting data on issues that should be resolved.

### Aims of the JR-West Group’s CS Initiatives (Medium-Term Management Plan)



**Breakdown of “Customer Voices”**  
Approximately 40,000 items of customer feedback were received in fiscal 2014.



**Perceiving Customer Expectations and Responding to Diverse Needs**

In addition to sincerely responding to customer voices and other requests, we use customer satisfaction and questionnaire surveys, communication with customers through blogs, and the analysis of customer voices to identify the diverse needs of the customer and use these in realizing services adapted to changes in society.

In response to increasing numbers of foreign visitors to Japan and customers' increasing need to acquire information over the internet via smartphones and other devices, we are working to improve convenience by providing guidance in foreign languages and enhancing the information on train services on the JR-West website.

**Enhancing Information on Train Services**

From October 2013, we expanded the hours of information provision in the Kyoto-Osaka-Kobe district from 6:00 AM - 12:00 AM to 4:00 AM - 2:00 AM.

**Free Wi-Fi Service**

We have installed free Wi-Fi aimed at foreign visitors to Japan in OSAKA STATION CITY, Kyoto Station Building, and at 24 stations which many such customers use.



**Building a Railway with a High Transport Quality**

The improvement of the quality of railway services such as punctuality and amenities is a key issue in order for customers to use our services with peace of mind and confidence. We are continuing to work to improve quality from the three perspectives of ensuring delays are not caused by internal factors such as equipment malfunction, quickly returning to scheduled services in the case a delay does occur, and rapidly providing appropriate guidance to customers.



Training implemented envisaging a disruption to the schedule



Super-TID\* terminals provided to station staff and used for giving guidance to customers

\* Super-TID (Traffic Information Display): A business application that visually provides information on train services, such as delays etc.



Information displays for abnormal circumstances added at stations

# Coexistence with Communities

## Basic Approach

For the JR-West Group, which has railway operations as the core of its business, it is impossible to exist apart from the areas we serve.

That is why we emphasize being a “railway company that coexists with communities” under “Our Future Direction — The Ideal Form for JR-West” in the “Medium-Term Management Plan,” which we are currently implementing.

To this end, we believe it important to maintain dialog with local residents in each area to achieve a common understanding of local issues and demands, and cooperate in exploring an ideal form for the region. We furthermore aim to realize area management for long-term, sustainable growth through building a win-win relationship with the region by strengthening cooperation with local governments and businesses, regarding development of stations and surroundings, attraction of sightseers, local transportation, and business development grounded in the area.

In the area of social contribution activities, the Group is continuing to engage in exchanges with the region on an operational level, focusing on activities with a close relationship to railways and our other business in each region. Moving forward, we hope to engage in initiatives that contribute to the resolution of local issues through leveraging the strengths of the JR-West Group.

The Group will contribute to the invigoration of the West Japan area through steadily building up locally-grounded initiatives in order to continue to grow with the communities.

## Coexistence with Communities—Overview



## Kansai Urban Area

### — Enhance the Value of Railway Belts and the Area

JR-West is working to develop areas adjacent to railway lines into pleasant residential areas, and to develop railway belts that passengers want to use. In fiscal 2014, we collaborated with local governments and capitalized on the characteristics of each area to promote initiatives that increased the value of railway belts through improving stations and enhancing lifestyle-related services businesses. An integrated daycare center was opened at Otsu Station in Shiga Prefecture as part of activities to support child raising set forth in a comprehensive collaboration agreement we concluded with Shiga Prefecture in fiscal 2013. We also concluded a comprehensive collaboration agreement with Nara Prefecture in October 2013 with the aim of the continued mutual development of the region and railways.

At the same time, JR-West is also putting efforts into providing information on the attractions of the Kyoto-Osaka-Kobe area over the internet and through smartphone applications, and other urban sightseeing initiatives. We are promoting projects to enhance the attraction of the Osaka Loop Line, which is positioned as a key railway belt, through improving stations, renewing rolling stock, and developing space under elevated tracks.



The integrated daycare center at Otsu Station



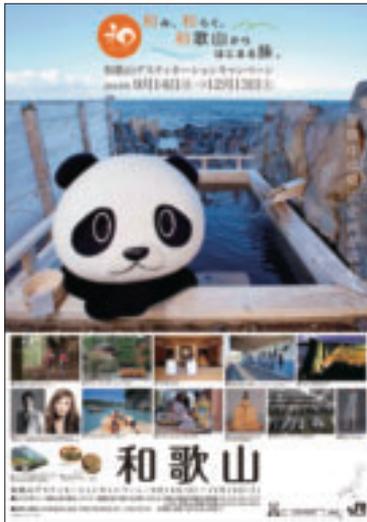
With the completion of work to enable access to wheelchairs at Setsumotoyama Station, all stations on the JR Kobe Line are now “barrier-free”

**Other West Japan Area  
— Invigorate the Strengths of Each Area**

JR-West is collaborating with local governments and businesses to develop projects that capitalize on the appeal of each area. In fiscal 2014, we concluded collaboration agreements with Tottori Prefecture, Shimane Prefecture, and local businesses with the aim of working together to solve regional issues, and promoted the actualization of measures based on the agreements. To promote tourism, we implemented the Destination Campaign (DC) and other tourism campaigns in collaboration with localities.

Sharing an understanding of the current state of regional transport and how it should be in the future with local residents, we are promoting initiatives that aim to resolve issues in the next generation of transportation.

We are also working to enhance the local infrastructure, through opening the Shimonoseki station building “ripie” and moving forward with the expansion of lifestyle-related services business projects such as the development of day service businesses specializing in rehabilitation in Hiroshima and Mihara.



Preparation for the fall 2014 Wakayama DC together with the local region



Opening of the rehabilitation day service POSSIBLE JR Hiroshima Station East Branch

**Further Enhancing Social Contribution Activities**

As a business that coexists with the local community, we engage in exchanges with local residents and activities that contribute to communities. The JR-West-Relief-Foundation provides assistance to NPO's and other organizations involved in building a society that affords safety and peace of mind, and also engages in first aid awareness raising and other activities. Each workplace also carries out activities grounded in the region, participating in local events, providing safety workshops, and running educational trips.



“Shinkansen Day” held to communicate the attraction of the Shinkansen (Hakata Car Maintenance Center)



An educational trip to encourage the healthy development of children (Okayama Station)

# Human Resources/Motivation

## Basic Approach

The human resources at each workplace sustain the business operations of the JR-West Group. We believe that the independent thought and action of all our employees, and the demonstration of their abilities to the fullest form the driving force behind the improvement of safety and CS, and contribute to peace of mind and reliability for the customer.

In order to continually be conscious of the customer, to work to improve our techniques and skills, and to strive to provide a safe and comfortable service, it is essential for all employees to be aware of their own roles and responsibilities, and to increase their motivation through feeling a sense of achievement in day-to-day operations. To this end, we promote various HR initiatives while improving communication in the workplace and building consensus among employees. It is furthermore crucial to foster a motivational environment through supporting a work-life balance and the promotion of good health.

Based on such initiatives, we aim for all employees to play an active role at work and to connect their dynamism to that of the organization as a whole. Through this we will seek to be a company trusted by communities and society.

## Human Resources/Motivation—Overview

Aiming for peace of mind and reliability for the customer

### Human resource training

#### Training employees to think and act independently

- Implementation of the PDCA cycle for training based on understanding the individual
- Improvement of techniques and skills (transfer of techniques)
- Activation of think-and-act such as business improvement activities

### Building a motivational workplace

#### Building an unrestricted and lively workplace

- Facilitation of communication (sense of unity)
- Promotion of a healthy mind and body
- Enhancement of the work-life balance

### Securing human resources

#### Reliably securing the human resources necessary for business operations

- Diversification of employment types
- Proactive employment of the disabled

## Human Resource Training

### — Training Employees to Think and Act Independently

To achieve the safe operation of the railways and increase customer satisfaction (CS), JR-West trains its employees to implement the Corporate Philosophy through engaging in their work with a strong sense of purpose and advanced technologies. Specifically, we develop the awareness and abilities of our employees through carrying out training in the areas of “safety,” “CS,” and “technologies,” and in “employee fundamentals,” which covers the workplace manners that form the basis for demonstrating an ability in these three areas.

### Implementation of the PDCA Cycle for Training Based on Understanding the Individual

We assess each individual based on practical ability standards for the work-related abilities necessary for every position and level, and map the skills (practical abilities) of every employee. Training programs are decided based on this, with on-the-job training and group training tailored to the needs of the individual employee. Through promoting a PDCA cycle for HR training in which the results of the training are reviewed and the individual is motivated to achieve the next target, we work to effectively improve the practical abilities of employees.

### Improvement of Techniques and Skills (Transfer of Techniques)

As we approach the retirement of a large number of experienced employees, the way in which to pass on the techniques and skills that underpin safety and CS is becoming an urgent matter. Accordingly, we are facilitating the transfer of techniques and skills from experienced employees to younger ones, in addition to rehiring retired employees.

To actively respond to the desire of employees to learn, we are working to enhance self-development programs through distance learning and other measures.

### Activation of Think-and-Act such as Business Improvement Activities

We promote business improvement activities that continually and systematically improve work structures and quality. The independent thought and creative ingenuity cultivated through such activities stimulates employees to be proactive and leads to the vitalization of the workplace.

## Application and Motivation of Diverse Human Resources

JR-West believes that the active participation of diverse human resources increases corporate value.

### Diversification of Employment

While continuing to focus on graduate recruitment, we reliably secure human resources through diverse recruitment methods. In addition to employing graduates (599 recruited in fiscal 2015), we also recruit regular employees from contract employees and conduct midcareer recruitment to assemble human resources with a strong sense of responsibility and purpose, and a challenging spirit. We also rehire retired employees and carry out other measures.

Through working to promote the employment of disabled people, we have achieved an employment rate 2.2% above legal requirements. Furthermore, the JR-West Group has established the special subsidiary company JR-West Iwill Co., Ltd. and is developing its printing business and business support operations (data input, etc.) in order to expand the scope of employment and promote the independence and social participation of disabled people.



JR-West Iwill Co., Ltd.

### Participation of Women in the Workplace

At JR-West, we believe in appointing the most suitable person for the job. This also applies to the promotion of women to executive and management positions.

The board of directors at JR-West comprises 14 members, which include 1 woman. The number of women in managerial positions has risen to 45 (approximately 3% of management class employees; an increase of 13% on the previous year and 105% on fiscal 2005), with 2 women holding positions equivalent to department general manager (including Group company president), current as of June 1, 2014.

Since restrictions on women working late at night were abolished in a revision of the Labor Standards Act in 1999, we have prepared the necessary facilities and furthered the expansion of positions in which women can be active. Having continued to actively appoint women, the number of female employees stationed across all workplaces is 3,138, current as of April 2014 (approximately 10% of the total workforce).

Moving forward, we will promote the creation of an environment in which women can be active and link this with the training of female employees to participate in future management.

### Increasing Motivation

In recognition of gender differences and in support of employees engaged in childcare, nursing, and other care activities, we are promoting initiatives to realize a work-life balance through both creating systems to facilitate the coexistence of work and the family and fostering a workplace culture that encourages employees to make use of them. Many employees are utilizing such systems, with approximately 520 employees (including 80 male employees) taking childcare leave in fiscal 2014, and most continuing to play an active role at the company after their return from leave.

Furthermore, we have formulated and are implementing a plan of action based on the Act on Advancement of Measures to Support Raising Next-Generation Children and have been awarded the third "Kurumin mark" certification by the Ministry of Health, Labour and Welfare as a company complying with standards.



Work-life balance support book



The Kurumin mark

# Environment

## Basic Approach

Initiatives for protecting the global environment are an important social responsibility that corporations are called upon to fulfill. Railways possess an environmental advantage (lower CO<sub>2</sub> emissions per unit of transport volume) over other forms of public transportation, but it is vital that we further elevate this advantage. We are therefore working toward the environmental targets stated in the Medium-Term Management Plan, namely adopting energy-saving railcars and facilities, promoting technological development, and promoting

energy-saving train driving.

In addition, we are working toward building a sustainable society by collaborating with communities and other public transportation institutions, increasing the convenience and appeal of railways and attracting a larger number of passengers who select rail as their choice for transportation. At the same time, we are putting increased effort toward having each and every employee reduce environmental impacts in his or her everyday business activities, while avoiding environmental risks with due regard for legal compliance.

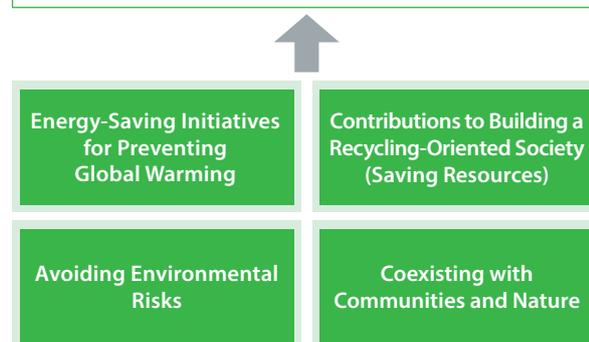
### [Basic Concepts]

JR-West, working in unison with its Group companies, will endeavor to protect the global environment and contribute to the realization of a society in which sustainable development is possible.

### [Code of Conduct]

- 1 Aiming to be a corporate group that is friendly to the global environment, we will engage in appropriate and effective resource usage.
- 2 We will develop technologies and engage in creative innovation to protect the global environment.
- 3 We will act with a constant awareness of the need to protect the global environment.

**JR-West, working in unison with its Group companies, will endeavor to protect the global environment and contribute to the realization of a society in which sustainable development is possible.**



## Environment Targets

Item	Fiscal 2014 Target	Fiscal 2014 Actual	Fiscal 2015 Target	Fiscal 2018 Target
Energy consumption volume (entire company) (vs. fiscal 2011)	(2 %)	(3 %)	(3 %)	(2 %) *2, 3
Same as above (for conventional line operation, station offices, etc.) (vs. fiscal 2011)	(4 %)	(5 %)	(5 %)	(9 %) *2
Energy consumption rate (vs. fiscal 2011) *1	(3 %)	(3 %)	(3 %)	(3 %) *2, 3
Station and train garbage (recyclable) recycling rate	96 % or greater	98 %	96 % or greater	
Railway material recycling rate	Facility construction	96 %	96 % or greater	
	Rolling stock	91 % or greater	93 %	91 % or greater

\*1 The energy consumption rate is the amount of energy consumed per rolling stock-kilometer (MJ / Rolling stock-km).

\*2 Included in the Medium-Term Management Plan

\*3 The fiscal 2018 target considers the estimated increase in energy consumption related to the start of Hokuriku Shinkansen operations.

Note: figures in brackets ( ) are negative values.

## Energy-Saving Initiatives for Preventing Global Warming

### Adopting Energy-Saving Railcars; Promoting Energy-Saving Train Driving

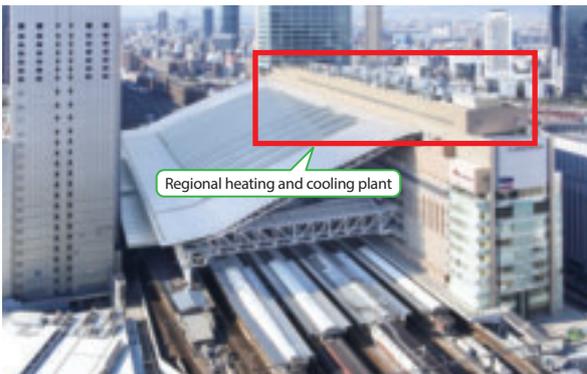
In order to reduce the energy used in operating trains, which comprises a large share of the energy consumed by our Company, we are proceeding to adopt railcars that excel in energy-saving features. As of the end of fiscal 2014, we had an adoption rate of 78% for energy-saving railcars. In addition, we are implementing “energy-saving train driving.”



225 Series energy-saving railcars

### Energy-Saving Initiatives in Stations and Elsewhere

The Group as a whole is striving to conserve energy in all workplaces, including stations. With regard to stations in particular, we are increasing the possible targets for energy conservation by dividing lighting circuits into smaller units. We are also pushing forward the concept of Eco Stations, which includes broad-based energy saving measures from adopting LED lighting and state-of-the-art air conditioning equipment in newly built and renovated stations.



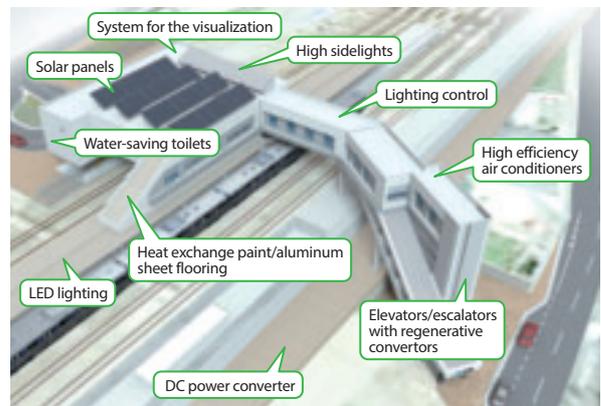
Our Group company Osaka Energy Service Co., Ltd., which supplies energy for heating and cooling to OSAKA STATION CITY, received the 52nd Award of Technology from the Society of Heating, Air-Conditioning and Sanitary Engineers of Japan. The award was in recognition of Osaka Energy Service's annual efficiency improvements in operating regional heating and cooling plants.

## Rolling out Eco Stations

We have established Eco Station Design Guidelines and are working to realize environmentally conscious stations by adopting energy-saving devices, and utilizing natural illumination and rain water in newly built and renovated stations.

We are aiming for new levels of energy-saving stations, as exemplified by Maya Station (provisional name), which is set to open in the spring of 2016 and will be equipped with a direct current electric power converter able to utilize regenerative electric power\* at the station.

\* Regenerative electric power: Electric power generated using motors that are driven when trains apply their brakes.

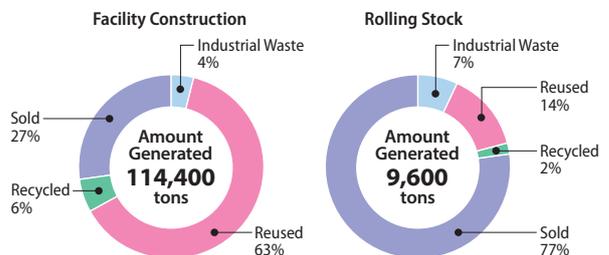


Maya Station (provisional name)

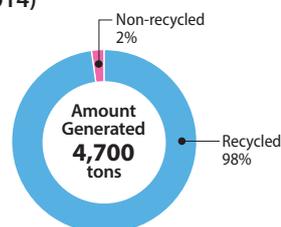
## Contributions to Building a Recycling-Oriented Society (Saving Resources)

With the helpful cooperation of passengers, we are separating and recycling garbage collected in stations and on board trains. In addition, we are working toward implementing the 3Rs (reduce, reuse, recycle) with regard to railway materials such as railcars, rails, crossties, and ballast. In fiscal 2014, we recycled 96% of waste from facility construction and 93% of waste from rolling stocks.

### Status of 3Rs for Railway Material (FY2014)



### Station and Train Garbage (Recyclable) Recycling Rate (FY2014)



# Corporate Governance

## Fundamental Stance on Corporate Governance

Based on its Corporate Philosophy and Safety Charter, JR-West will work to fulfill its CSR and strive for sustained future growth through continuous efforts to build a safe railway that gives peace of mind and earns trust.

To realize these goals, from the perspective of enhancing the soundness, transparency, and efficiency of management, JR-West is striving to reinforce its corporate governance by putting in place systems to establish corporate ethics, strengthen oversight and supervisory functions, and expedite the execution of business operations.

## Overview of the Corporate Governance System and Reasons for Adopting This System

JR-West adopted the structure of a Company with Audit & Supervisory Board Members pursuant to the Companies Act of Japan as its corporate governance system. By subjecting the execution of duties by directors to appropriate auditing by each of the four Audit & Supervisory Board Members (all males), including three external Audit & Supervisory Board Members, JR-West ensures the transparency and fairness of its management.

The external directors have a clearly defined and specialized role focusing on oversight and supervision. JR-West has five external directors, comprising one female and four male directors. In addition to participating in decision making related to the execution of important management issues as full members of the Board of Directors, the external directors work to further strengthen oversight and supervisory functions through offering advice and monitoring the actions of management based on their extensive experience and expert knowledge. In addition, the Company has adopted the executive officer

system with the aim of further enhancing managerial efficiency.

From the perspective of enhancing the soundness, transparency, and efficiency of management, based on the current Audit & Supervisory Board System outlined above, JR-West considers it appropriate to put in place a system for management decision making and operational execution as well as oversight and supervision.

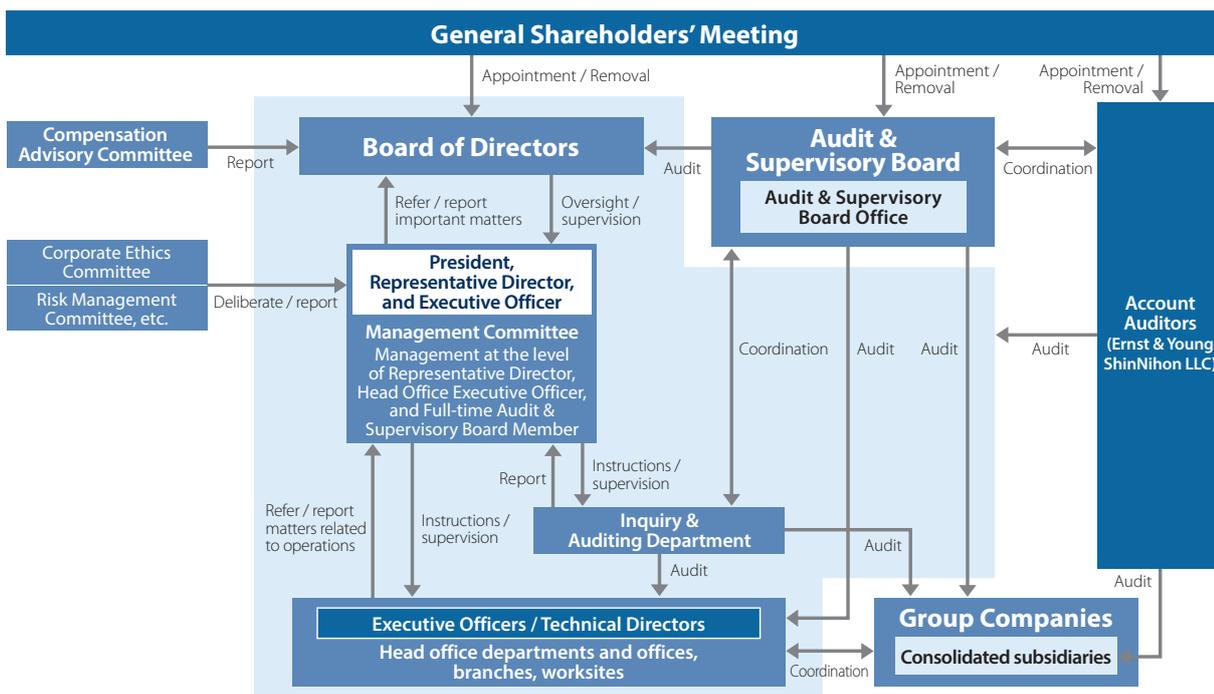
To establish corporate ethics, the Company institutes its code of conduct and code of ethics, makes its officers comply with these codes and exercise initiative in materializing the Corporate Philosophy, and generates a sense of common values that will constitute the basis of honest and fair business behavior.

The Company established a Corporate Ethics Committee chaired by the President, which shall deliberate on and evaluate important matters for the establishment of corporate ethics and submit necessary reports to the Board of Directors.

The Company also established a system to accept consultations as to questionable acts from the perspective of law or corporate ethics through contacts with its Ethics Office and outside attorneys and improved its whistle-blowing system.

Directors and executive officers submit "Letters of Confirmation of Execution of Duties," which state that they have committed no misdeed or material violation of laws or rules in connection with the execution of their duties, at the close of each fiscal year.

In principle, the Board of Directors meets once a month. In addition to receiving timely and appropriate reports on such matters as the status of the execution of business operations and corporate ethics, the Board of Directors deliberates on important management matters and carries out expeditious decision making. The Board also undertakes



Notes 1:   Denotes audit scope of the account auditors

Notes 2: The Audit & Supervisory Board Office has been established as an organization for Audit & Supervisory Board Members, and employees are selected to staff the office in order to support the duties of Audit & Supervisory Board Members.

mutual oversight of the execution of duties.

To strengthen the Board of Directors' oversight and supervisory functions, of the 14 directors the Company appoints (1 female and 13 male directors), five are external directors, whose specialized role focuses on oversight and supervision. The Company is working to reinforce the system for conveying information to the external directors through such measures as increasing the opportunities for briefing the external directors on the status of operational execution.

In accordance with the selection procedures for directors, the President proposes the candidates for director to be recommended to the General Shareholders' Meeting to the Board of Directors, which makes decisions on the candidates through a resolution. The Company has abolished the directors' bonus system and director compensation has been unified as a system of monthly compensation. With the aim of enhancing the objectivity and transparency of director compensation, the Company has established the Compensation Advisory Committee, which comprises at least three directors, the majority of whom are external directors. The Compensation Advisory Committee deliberates on director compensation from the perspective of objectivity and fairness and makes recommendations to the Board of Directors based on these deliberations.

Furthermore, the Company has established the Management Committee, comprised of members including representative directors and executive officers mainly in the head office, to discuss items fundamental to the execution of business duties. In principle, the Management Committee convenes weekly. In addition, by delegating authority to the executive officers, the Company aims to expedite decision making and business execution. Moreover, the highest responsibility for the execution of business operations has been integrated into the office of the President.

### **Status of the Internal Control System (Including the Risk Management System)**

Pursuant to the Corporation Law of Japan, the Board of Directors has formally approved the Company's fundamental stance regarding the internal control system and the status of this system. An overview of this system is as follows.

#### **1. Systems to ensure directors and employees observe laws and regulations and the Company's Articles of Incorporation when executing their duties**

To establish corporate ethics, the Company institutes its code of conduct and code of ethics in accordance with its Corporate Philosophy and generates a sense of common values that will constitute the basis of honest and fair business behavior by encouraging its officers to comply with these codes and exercise initiative in materializing the Corporate Philosophy. The Company established a Corporate Ethics Committee chaired by the President, which deliberates on and evaluates important matters for the establishment of corporate ethics and submits necessary

reports to the Board of Directors. The Company also accepts consultations as to questionable acts from the perspective of law or corporate ethics through its Ethics Office and outside attorneys and has improved its whistle-blowing system.

JR-West absolutely rejects relationships with antisocial forces. To this end, the Company collaborates closely with specialist outside agencies and has established a supervisory department and prepared relevant manuals.

The Board of Directors of the Company meets once every month, in principle, to deliberate on important matters for management, report the development of execution of business and matters concerning corporate ethics on a timely and appropriate manner, and allow directors to mutually monitor the execution of their duties. The Company makes a clear distinction between directors who engage exclusively in monitoring and supervision and directors who execute business (concurrently serving as executive officers) as well. The Company is committed to having two or more external directors, and has improved its information provision system to the external directors to strengthen its functions of monitoring and supervision of corporate management. In addition, the Company clarified the criteria for selection of directors and executive officers to ensure objectivity and transparency.

With regard to the execution of duties by directors and employees, the Company utilizes mechanisms of mutual supervision, such as a system of collective decision making. The Company also establishes various committees from time to time to ensure duties are executed transparently. In addition, the Inquiry & Auditing Department, which is responsible for internal audits, audits the Company's business in general from the perspectives of compliance with laws, ordinances and regulations.

Furthermore, for the purpose of the establishment of systems to evaluate and audit internal control over financial reporting, the Company shall maintain and improve internal control over financial reporting through the evaluation of the effectiveness thereof by the department responsible for internal audits to ensure the correctness and credibility of financial reporting.

Directors and executive officers submit "Letters of Confirmation of Execution of Duties," which state that they have committed no misdeed or material violation of laws or rules in connection with the execution of their duties, at the close of each fiscal year.

Through these measures, the Company endeavors to improve its systems to ensure compliance with laws and establish corporate ethics in its business operations in general.

#### **2. Systems to store and manage information relating to the directors' execution of their duties**

In accordance with laws and regulations and the Company's document-management policies, each department in the Company appropriately prepares, stores, and manages information relating to the directors' execution of their duties, and when necessary makes this information available for inspection by directors or Audit & Supervisory Board Members.

## Corporate Governance

### 3. Regulations for management of the risk of loss and related systems

On April 25, 2005, JR-West caused an extremely serious accident when one of its trains derailed between Tsukaguchi and Amagasaki stations on the Fukuchiyama Line, resulting in 106 fatalities and more than 500 injuries among passengers. Solemnly accepting responsibility, the Company resolved that such an accident would never again occur. In accordance with its Corporate Philosophy and Safety Charter, JR-West is striving to build a safe railway that gives peace of mind and earns trust.

In June 2007, a report on the Fukuchiyama Line accident released by the Aircraft and Railway Accidents Investigation Commission made various remarks, including proposals and opinions. The Company quickly acted in response to the report's recommendations and has been steadily implementing improvement measures. Additionally, the Company will steadily achieve higher levels of safety through "continual effort to realize safe, reliable transport service," and by "increasing levels of risk assessment," "increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life," and moving forward with "investment in safety." All of these initiatives are high priorities and have been set forth in the "Safety Think-and-Act Plan 2017" inaugurated in March 2013. Also, the Company works to establish safety management systems based on the Railway Safety Management Manual, which it formulated in response to the October 2006 revision to the Railway Business Act. In addition, the President serves as the Chairman of the Risk Management Committee, which identifies risks and critical events that could have a substantial impact on the Company's management, prepares related manuals, and discusses and decides upon important response measures. The committee also quickly constructs rapid first-response systems for major crises, such as a large-scale natural disaster, strives to implement appropriate countermeasures, and inspects and evaluates risk management frameworks and systems.

Through these measures, the Company is working to maintain and improve systems to achieve appropriate risk management for all Company business activities.

### 4. Systems to ensure that directors execute their duties efficiently

Based on the plan for all business activities defined by the Board of Directors at the start of each fiscal year, the directors responsible for each department appropriately carry out the duties necessary to implement the policies of their departments in accordance with their administrative authority and rules for decision making determined by regulations relating to Company organizations and the execution of Company duties. Furthermore, the Management Committee—comprised of members including representative directors and executive officers mainly in the head office—in principle convenes weekly to discuss items fundamental to the execution of business duties. In addition, the Company has introduced the executive officer system, under which authority is delegated to the executive officers to strengthen the oversight and supervisory functions of the Board of Directors and to enhance the speed of decision making.

### 5. Systems to ensure the appropriateness of operations in the corporate group

Based on deliberations by the Corporate Ethics Committee, the Company formulates policies relating to measures aimed at building Groupwide corporate ethics. The Risk Management Committee determines fundamental matters related to Groupwide risk management. Based on policies and stipulations, each subsidiary establishes committees and regulations to construct systems to establish a Groupwide corporate ethics system and carry out appropriate risk management. Furthermore, the whistle-blowing system may be utilized for consultations related to Group companies through internal and external consultation services established by the Company.

The Company works to ensure that the appropriateness and the effectiveness of Group management are preserved. It maintains systems so that Group companies can discuss important management items with the Company prior to decisions being made. In addition, the Company's executives serve as directors and Audit & Supervisory Board Members at important Group companies. Furthermore, when required, the Company will confirm that Group companies are observing relevant laws and regulations in their business management through internal audits.

"Evaluation of Internal Controls for Financial Reporting" is carried out as a Groupwide measure since consolidated operations are the subject of these evaluations.

### 6. Matters relating to those employees who provide assistance to Audit & Supervisory Board Members and the independence of those employees from directors

The Audit & Supervisory Board Office has been established as an organization for Audit & Supervisory Board Members, and employees are selected to staff the office in order to support the duties of Audit & Supervisory Board Members. The staff carries out its duties in accordance with the instructions of the Audit & Supervisory Board Members.

Furthermore, decisions on staff redeployment or evaluation are made while giving full consideration to the opinions of the Audit & Supervisory Board Members.

### 7. Systems for directors and employees to report to Audit & Supervisory Board Members and other systems regarding reporting to Audit & Supervisory Board Members

Directors, executive officers, and employees immediately report to the Audit & Supervisory Board Members or the Audit & Supervisory Board on serious accidents, behavior that violates laws and regulations or the Company's Articles of Incorporation, or if they discover a situation that might result in the Company incurring significant damage. Furthermore, Audit & Supervisory Board Members receive regular reports and additional reports as needed on the status of internal audits, details of reporting to the Ethics Office, details of the activities of the Deputies to the Safety Manager, details of the activities of each department and the issues they face, and any other items as requested by Audit & Supervisory Board Members or the Audit & Supervisory Board.

## 8. Other systems to ensure that Audit & Supervisory Board Members carry out their audits effectively

To ensure the effectiveness of the audits carried out by Audit & Supervisory Board Members, directors and other executives maintain systems for Audit & Supervisory Board Members to attend important meetings; to inspect important documents, including documents related to decisions; to cooperate with the internal audit department and accounting auditors; to regularly exchange opinions with representative directors and other executives; and other systems necessary for the Audit & Supervisory Board Members to carry out their audit activities effectively.

Furthermore, the Company works to coordinate the activities of departments that have jurisdiction over offices in the Company and to ensure that surveys in other locations are conducted effectively and efficiently.

### Overview of Contracts for Limitation of Liability

In accordance with article 427, item 1, of the Companies Act of Japan, the Company provides in the Articles of Incorporation that external directors and external Audit & Supervisory Board Members are to enter into a contract for limitation of liability with the Company, limiting the liability of the external directors and external corporate auditors under article 423, item 1, to a specified amount. As of the release date of the Company's Yuho securities report, all external directors and external corporate auditors had entered into such a contract with the Company.

### Status of Audits by the Audit & Supervisory Board Members, Internal Audits, and Accounting Audits

In accordance with the auditing policies and audit plan prepared by the Audit & Supervisory Board, Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings, and conduct auditing visits of branch offices and worksites. They also hold individual hearings with directors on matters considered necessary, audit the conduct of business by directors, and provide necessary advice and recommendations. Audit & Supervisory Board Members also request business reports from subsidiaries and other affiliates, and investigate their business and/or finances as necessary. The Audit & Supervisory Board meets regularly to hear reports on significant matters pertaining to audits as well as to deliberate and make decisions. With regard to the support of the Audit & Supervisory Board Members, including external Audit & Supervisory Board Members, The Audit & Supervisory Board Office has been established as an organization for Audit & Supervisory Board Members and employees are selected to staff the office in order to support the duties of Audit & Supervisory Board Members. The staff carries out its duties in accordance with the instructions of the Audit & Supervisory Board Members. Audit & Supervisory Board Member Yasumi Katsuki holds the qualifications of a certified public accountant (CPA) and possesses a wealth of knowledge relating to finances and accounting.

With regard to internal audits, the Inquiry & Auditing Department, which is tasked with internal auditing functions, comprises approximately 25 staff. Through this structure, the Inquiry & Auditing Department conducts audits covering the Company's overall business operations, from the perspective of

compliance with relevant laws and internal regulations and the adequacy of business operation management, including evaluation of internal controls relating to financial reporting.

Furthermore, the Audit & Supervisory Board Members and the Inquiry & Auditing Department, which is responsible for internal audits, conduct regular exchanges of opinion on each other's respective audit plans, methodology, and results, as well as other measures to maintain close mutual cooperation. At the same time, the corporate auditors and the Inquiry & Auditing Department strive to ensure efficient and effective auditing as well as the accuracy and reliability of financial reporting.

With regard to independent accounting audits, the Company has entered into an audit agreement with Ernst & Young ShinNihon LLC, which carries out appropriate audits that are conducted by an audit team comprising three partners and an auditing support staff consisting of 35 members: 17 other CPAs and 18 other support staff. These audits are conducted in accordance with auditing standards generally accepted in Japan. In addition, the audits conducted by the Audit & Supervisory Board Members, the Inquiry & Auditing Department, and the accounting auditors involve close mutual cooperation and the ongoing exchange of information regarding each other's respective audit plans, methodology, and results, to facilitate efficient and effective auditing.

### In fiscal 2014, auditing procedures were conducted by the following CPAs.

Name		Affiliated auditing firm	Consecutive years of auditing
Designated limited liability partners	Mikio Konishi	Ernst & Young ShinNihon LLC	—
	Yoshihiro Shibata		—
	Naoya Nishino		—

### Policies Regarding the Functions, Roles, Relationship with the Company and Independence of the External Directors and External Audit & Supervisory Board Members

JR-West adopts the structure of a Company with Audit & Supervisory Board Members as its corporate governance system. Specifically, by subjecting the execution of duties by directors to appropriate auditing by each of the four Audit & Supervisory Board Members, including three external Audit & Supervisory Board Members, JR-West ensures the transparency and fairness of its management. Furthermore, five of the 14 directors are external directors, whose role is focused on oversight and supervision. The external directors work to further strengthen the oversight and supervisory functions of the Board of Directors.

Applications for all external directors and Audit & Supervisory Board Members have been submitted to the securities exchanges on which the Company is listed to identify them as independent officers.

All five external directors—Tadashi Ishikawa, Yumiko Sato, Yuzo Murayama, Norihiko Saito, and Hideo Miyahara—were selected due to their rich backgrounds in fields such as law, management, and academia. The Company hopes to reflect the expertise of these individuals in its management.

## Corporate Governance

Based on the fact that there is very little likelihood of a conflict of interest arising between the five external directors and ordinary shareholders—none of the external directors has previously held a position at any companies with which JR-West has a significant business relationship—the Company judges that the external directors are able to maintain a sufficient level of independence. The Company believes that the external directors are able to provide management oversight from an independent position. It should be noted, however, that the external director, Hideo Miyahara, is affiliated with Osaka University, an institution to which the Company provides research grants.

All three external Audit & Supervisory Board Members were selected due to their rich backgrounds in a variety of fields—Tsutomu Iwasaki in politics, and Ikuo Uno and Yasumi Katsuki as managers and CPAs. The Company hopes to reflect the expertise of these individuals in its management.

Based on the fact that there is very little likelihood of a conflict of interest arising between the three external Audit & Supervisory Board Members and ordinary shareholders—none of the external corporate auditors has previously held a position at any companies with which JR-West has a significant business relationship—the Company judges that the external corporate auditors are able to maintain a sufficient level of independence. The Company believes that the external Audit & Supervisory Board Members are able to audit the execution of duties of the directors from an independent position. External Audit & Supervisory Board Member Ikuo Uno is also a consultant to Nippon Life Insurance Company, with which the Company has entered into transactions in the form of long-term debt and insurance policies for which employees are policy holders.

### Director Compensation, etc.

#### 1. Total compensation amount by officer classification, total compensation amount by type of compensation, and number of recipient officers

Officer classification	Total compensation amount (Millions of yen)	Total compensation amount by type of compensation (Millions of yen)				Number of recipient officers
		Basic compensation	Stock options	Bonus	Retirement bonus	
Directors (excluding external directors)	¥426	¥426	—	—	—	10
Audit & Supervisory Board Members (excluding external Audit & Supervisory Board Members)	¥ 30	¥ 30	—	—	—	1
External directors and external corporate auditors	¥ 88	¥ 88	—	—	—	9

#### 2. Total compensation amounts for individual officers

No disclosure is made owing to the fact that no individual officer received total compensation of ¥100 million or higher.

#### 3. Policy for determining the amount of director compensation, etc.

With regard to compensation for directors and Audit & Supervisory Board Members, the Company has abolished the directors' bonus system and the directors' retirement bonus system, and has instead implemented a unified system of monthly compensation.

The directors' monthly compensation comprises "basic remuneration" and "performance-evaluation remuneration," the latter of which is determined using such factors as business operating results during the previous fiscal year as a guide. The level of compensation takes into account compensation levels at other companies, with such information drawn from specialist external organizations, to ensure an appropriate level of compensation.

In addition, with the aim of enhancing the objectivity and transparency of director compensation, the Company has established the Compensation Advisory Committee, which comprises at least three directors, the majority of whom are external directors. The Compensation Advisory Committee deliberates on director compensation from the perspective of objectivity and fairness and makes recommendations to the Board of Directors based on these deliberations.

Audit & Supervisory Board Member compensation comprises only "basic remuneration," and the level of compensation takes into account compensation levels at other companies, with such information drawn from external special organizations, to ensure an appropriate level of compensation.

The compensation for each individual director is determined by a resolution of the Board of Directors, and the compensation for each individual Audit & Supervisory Board Member is determined through consultations among the Audit & Supervisory Board Members. The totals of these compensation amounts are determined within the total compensation amounts for all directors and all Audit & Supervisor Board Members approved by a resolution of the General Shareholders' Meeting.

### Status of Stock Holdings

#### 1. Investments in stocks for which the holding purpose is other than pure investment

Number of companies: 35

Total carrying amount on the balance sheet: ¥12,981 million

#### 2. Holding purpose, name of holding company, number of shares, and amount on the balance sheet for holdings of investments in stocks for which the holding purpose is other than pure investment

#### Fiscal 2013

Investments in stocks for special purposes

Company	Number of shares	Amount on the balance sheet (Millions of yen)	Holding purpose
Sumitomo Mitsui Trust Holdings	5,334,530	¥ 2,363	To maintain a good relationship, facilitate smooth business operations
Japan Tobacco Inc.	610,000	¥ 1,830	
Mitsubishi UFJ Financial Group, Inc.	2,921,500	¥ 1,630	
Sumitomo Mitsui Financial Group, Inc.	408,340	¥ 1,541	
The Kinki Sharyo Co., Ltd.	3,454,000	¥ 1,053	
Isetan Mitsukoshi Holdings Ltd.*	500,000	¥ 679	
Electric Power Development Co., Ltd.*	192,840	¥ 477	
Mizuho Financial Group, Inc.*	1,767,410	¥ 351	
Asia Air Survey Co., Ltd.*	710,000	¥ 225	
Resona Holdings, Inc.*	299,300	¥ 146	
East Japan Railway Company*	200	¥ 1	

\* Although the amounts presented on the balance sheet for these holdings do not exceed one-hundredth of the Company's common stock, 11 holdings are presented in the table

## Fiscal 2014

Investments in stocks for special purposes

Company	Number of shares	Amount on the balance sheet (Millions of yen)	Holding purpose
Sumitomo Mitsui Trust Holdings, Inc.	5,334,530	¥ 2,485	To maintain a good relationship, facilitate smooth business operations
Japan Tobacco Inc.	610,000	¥ 1,976	
Sumitomo Mitsui Financial Group, Inc.	408,340	¥ 1,800	
Mitsubishi UFJ Financial Group, Inc.	2,921,500	¥ 1,656	
The Kinki Sharyo Co., Ltd.	3,454,000	¥ 1,340	
Isetan Mitsukoshi Holdings Ltd.*	500,000	¥ 637	
Electric Power Development Co., Ltd.*	192,840	¥ 562	
Mizuho Financial Group, Inc.*	1,767,410	¥ 360	
Resona Holdings, Inc.*	299,300	¥ 149	
East Japan Railway Company*	200	¥ 1	

\* Although the amounts presented on the balance sheet for these holdings do not exceed one-hundredth of the Company's common stock, 10 holdings are presented in the table

### 3. Stocks for which the holding purpose is purely investment purposes

There are no applicable items.

### Number of Directors

The Company's Articles of Incorporation stipulates that the number of directors shall be 40 or less.

### Requirements Relating to Resolutions for the Appointment of Directors

The conditions stipulated by JR-West's Articles of Incorporation for resolutions are a quorum of shareholders with one-third or more voting rights and the approval of the resolution by shareholders with more than half of those voting rights. Furthermore, the Company's Articles of Incorporation stipulates

that resolutions for the appointment of directors shall not be conducted using cumulative voting.

## Resolutions to be Decided by the General Shareholders' Meeting that May Be Resolved by the Board of Directors

### 1. Acquisition of treasury stock

With regard to the acquisition of treasury stock, to facilitate expeditious management decisions, pursuant to article 165, paragraph 2, of the Corporation Law of Japan, the Company's Articles of Incorporation stipulates that the Company may acquire its own shares through market transactions, etc., based on a resolution of the Board of Directors.

### 2. Interim dividend

To expand the opportunities for shareholder return, pursuant to article 454, paragraph 5, of the Corporation Law of Japan, the Company's Articles of Incorporation stipulates that the Company may pay an interim dividend based on a resolution of the Board of Directors.

### Conditions for Special Resolutions of the General Shareholders' Meeting

The conditions stipulated by JR-West's Articles of Incorporation for resolutions based on article 309, paragraph 2, of the Corporation Law of Japan are a quorum of shareholders with one-third or more voting rights and the approval of the resolution by shareholders with two-thirds or more of those voting rights. These conditions are designed to promote the smooth and efficient functioning of the General Shareholders' Meetings by relaxing the quorum required for special resolutions of the General Shareholders' Meeting.

## Message from the External Director



Tadashi Ishikawa

Using my 40 years of experience as an attorney involved in antitrust law and international transactions, I focus on the following areas in order to execute the external oversight expected of me as an external director.

1. I proactively and unrestrainedly ask questions about the necessary facts and reasons for proposals that form the basis for decisions in order to stimulate discussion among the Board of Directors. Commonly accepted practice within a

company may not be so for an outsider.

2. There is a limit to my personal ability to understand whether technical issues exist and the significance of accounting figures, but I can judge whether investigative procedures and processes have been appropriately and adequately followed through to individual proposals. In order to ensure the correct outcome, I verify whether the relevant procedures and processes for important decisions have been followed. I check for any suitable advice and opinions obtained from experts in the course of the investigative process and strive to understand them along with the details and degree of any risks pointed out.

### Career

April 1973	Registered as an attorney	August 2002	Became the representative employee of the Legal Professional Corporation OH-EBASHI LPC & PARTNERS
April 1973	Joined Daijiro Kikkawa Law Office	April 2004	Became Professor of Kobe University Graduate School of Law
August 1977	Joined Weil, Gotshal & Manges LLP (New York)	June 2006	Became a director of JR-West (incumbent)
August 1978	Rejoined Daijiro Kikkawa Law Office	August 2008	Became an employee of the Legal Professional Corporation OH-EBASHI LPC & PARTNERS
April 1980	Established Ishikawa Law Office (currently OH-EBASHI LPC & PARTNERS)	September 2012	Became a Special Counsel to the Legal Professional Corporation OH-EBASHI LPC & PARTNERS (incumbent)
October 1998	Became a part-time lecturer at the Kobe University Graduate School of Law		

# Board of Directors and Audit & Supervisory Board Members

As of June 24, 2014

## Board of Directors

Chairman of the Board of Directors

**Takayuki Sasaki**

Directors

**Tadashi Ishikawa<sup>1</sup>**

Special Counsel, OH-EBASHI LPC & PARTNERS

**Yumiko Sato<sup>1</sup>**

Distinguished Professor, Otemon Gakuin University

**Yuzo Murayama<sup>1</sup>**

Vice President, Doshisha University

**Norihiko Saito<sup>1</sup>**

Chairman, KINDEN CORPORATION

**Hideo Miyahara<sup>1</sup>**

Specially-Appointed Professor,  
Graduate School of Information Science and Technology, Osaka University

President, Representative Director, and Executive Officer



**Seiji Manabe**

Vice Presidents, Representative Directors, and Executive Officers



**Akiyoshi Yamamoto**



**Shizuka Yabuki**



**Tatsuo Kijima**

Directors and Senior Executive Officers

**Akihiro Horisaka**

**Kazuaki Hasegawa**

**Norihiko Yoshie**

**Nobutoshi Nikaido**

<sup>1</sup> External Director   <sup>2</sup> Full-Time Auditor   <sup>3</sup> External Auditor

## Audit & Supervisory Board Members

**Yasutaka Kikuchi<sup>2</sup>**

**Tsutomu Iwasaki<sup>2,3</sup>**

**Ikuo Uno<sup>3</sup>**

Advisor, Nippon Life Insurance Company

**Yasumi Katsuki<sup>3</sup>**

Certified Public Accountant, Katsuki Office

# Executive Officers

As of June 24, 2014

President, Representative Director,  
and Executive Officer  
**Seiji Manabe**

Vice Presidents,  
Representative Directors,  
and Executive Officers

**Akiyoshi Yamamoto**  
Senior General Manager of  
Railway Operations Headquarters  
General Manager of Safety Research Institute

**Shizuka Yabuki**  
Senior General Manager of Business  
Development Headquarters

**Tatsuo Kijima**  
Senior General Manager of Supporting Headquarters  
for the Victims of the Derailment Accident on  
the Fukuchiyama Line

Directors and Senior Executive Officers  
**Akihiro Horisaka**  
Deputy Senior General Manager of Railway Operations  
Headquarters / Senior General Manager of Marketing  
Department, Railway Operations Headquarters

**Kazuaki Hasegawa**  
Senior General Manager of Kansai Urban Area Regional  
Head Office

**Norihiko Yoshie**  
Deputy Senior General Manager of Railway Operations  
Headquarters / General Manager of Shinkansen  
Supervising Department, Railway Operations  
Headquarters

**Nobutoshi Nikaido**  
General Manager of Deliberation Department of  
the Derailment Accident on the Fukuchiyama Line  
General Manager of General Affairs Department  
General Manager of Finance Department

Senior Executive Officers

**Kouhei Ogino**  
General Manager of Shinkansen Management Division

**Takaiki Ikoma**  
Deputy Senior General Manager of Railway Operations  
Headquarters / General Manager of Transport Safety  
Department, Railway Operations Headquarters

**Fumito Ogata**  
Senior General Manager of Corporate Planning  
Headquarters / Senior General Manager of  
Tokyo Headquarters

Executive Officers  
**Masashi Nonaka**  
General Manager of Kanazawa Branch

**Takao Okubo**  
General Manager of Electrical Engineering Department,  
Railway Operations Headquarters

**Shoji Kurasaka**  
General Manager of Corporate Communications  
Department

**Atsushi Sugioka**  
General Manager of Hiroshima Branch

**Katsumi Imai**  
General Manager of Personnel Department

**Katsumi Tsuchida**  
General Manager of Construction Department

**Toshihiko Kunihiro**  
Deputy Senior General Manager of Kansai Urban Area  
Regional Head Office / General Manager of Osaka  
Branch, Kansai Urban Area Regional Head Office

**Kei Fukushima**  
Deputy Senior General Manager of Supporting  
Headquarters for the Victims of the Derailment Accident  
on the Fukuchiyama Line

**Yoshihisa Hirano**  
General Manager of Railway System Planning  
Department, Railway Operations Headquarters

**Shinichi Handa**  
General Manager of Track & Structures Department,  
Railway Operations Headquarters

**Kunimasa Kojima**  
Senior General Manager of IT Headquarters

**Kuniaki Morikawa**  
General Manager of Transport Department,  
Railway Operations Headquarters

**Keijiro Nakamura**  
General Manager of Okayama Branch

**Noriaki Ejiri**  
Deputy Senior General Manager of Kansai Urban Area  
Regional Head Office / General Manager of Osaka  
General Control Center, Kansai Urban Area Regional  
Head Office

**Masafumi Ise**  
Deputy Senior General Manager of Business  
Development Headquarters

**Ushio Kurahara**  
Deputy Senior General Manager of Kansai Urban Area  
Regional Head Office / General Manager of Kyoto  
Branch, Kansai Urban Area Regional Head Office

**Hiroaki Tohi**  
General Manager of Fukuchiyama Branch

**Toshiomi Sakai**  
Deputy Senior General Manager of Tokyo Headquarters

**Hiroaki Inoue**  
Deputy General Manager of Shinkansen Management  
Division / General Manager of Fukuoka Branch,  
Shinkansen Management Division

**Satoshi Iwasaki**  
Deputy Senior General Manager of Business  
Development Headquarters

**Toshihiro Matsuoka**  
General Manager of Yonago Branch

**Tadashi Kawai**  
General Manager of Wakayama Branch

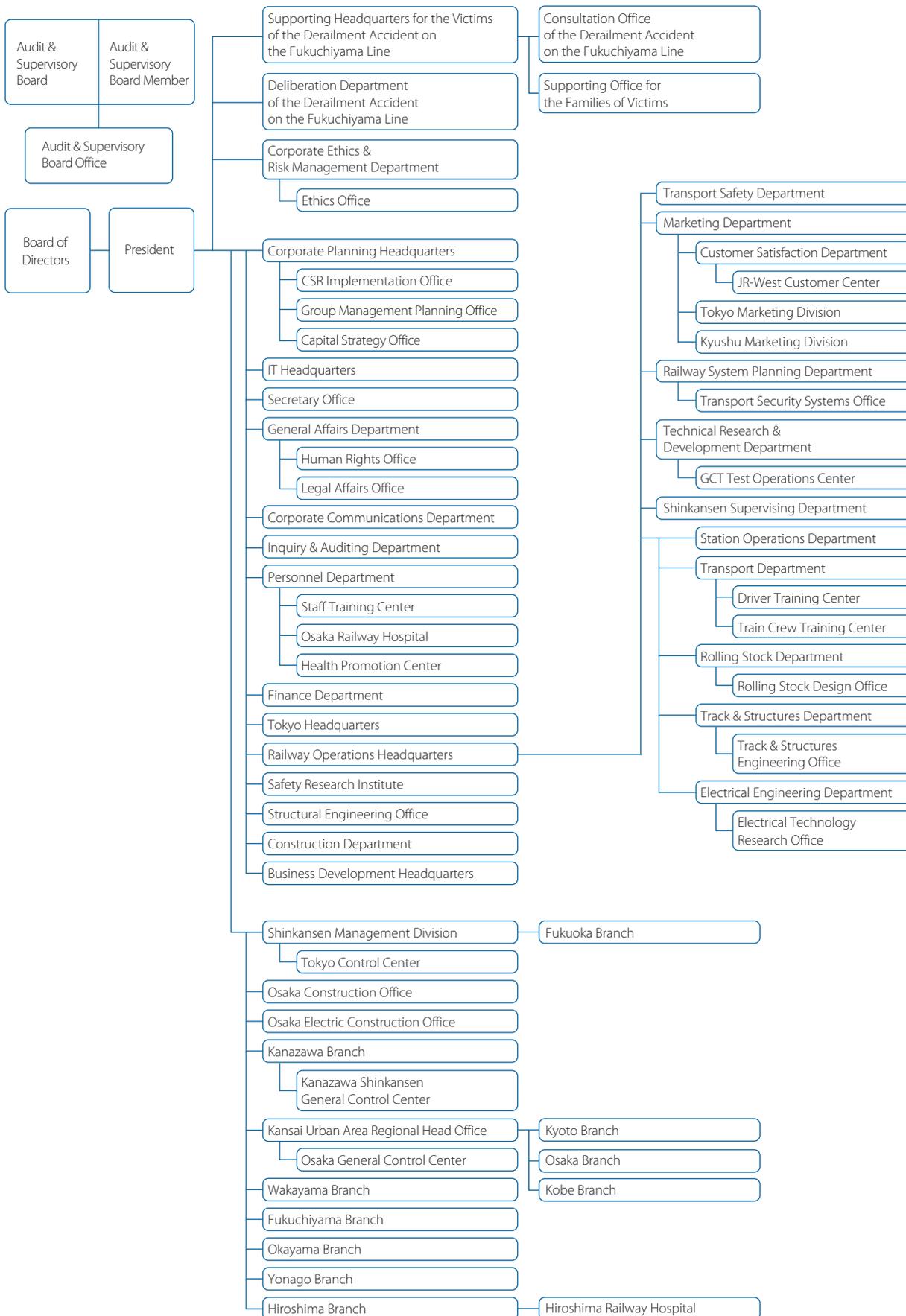
**Takashi Shiojima**  
Deputy Senior General Manager of Kansai Urban Area  
Regional Head Office / General Manager of Kobe  
Branch, Kansai Urban Area Regional Head Office

Senior Technical Director  
**Yoshifumi Matsuda**  
General Manager of Structural Engineering Office

Technical Director  
**Fumio Tanaka**  
General Manager of Technical Research & Development  
Department, Railway Operations Headquarters

# Organizational Structure

As of June 1, 2014



# Financial Section

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# Consolidated 10-Year Financial Summary

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31

	2005	2006	2007
<b>OPERATIONS:</b>			
Operating revenues	¥ 1,220.8	¥ 1,240.0	¥ 1,262.9
Operating income	133.1	135.2	135.3
Net income	58.9	46.5	56.7
<b>BALANCE SHEETS:</b>			
Total assets	2,364.3	2,355.9	2,401.6
Long-term debt and payables* <sup>2</sup>	1,081.6	1,024.9	986.7
Total shareholders' equity	524.3	564.2	—
Total net assets	—	—	637.8
<b>OTHER DATA:</b>			
Net cash provided by operating activities	142.9	164.0	188.6
Net cash used in investing activities	(84.9)	(101.7)	(131.7)
Net cash provided by (used in) financing activities	(66.4)	(69.3)	(54.6)
<b>Other Data:</b>			
Depreciation and amortization	113.6	111.9	112.8
Capital expenditures, excluding contributions received for construction	113.1	125.3	144.9
EBITDA* <sup>3</sup>	246.7	247.1	248.1
<b>PER SHARE DATA*<sup>4</sup>:</b>			
Net income	¥ 29,463	¥ 23,282	¥ 28,415
Cash dividends	6,000	6,000	6,000
Net assets	262,233	282,245	303,906
<b>RATIOS:</b>			
ROA (Operating Income Basis)	5.6	5.7	5.7
ROE	11.8	8.5	9.7
DOE	—	2.2	2.0
Rate of total distribution on net assets* <sup>5</sup>	—	—	—
Equity ratio	22.2	23.9	25.3

\*1 Yen figures have been converted into U.S. dollars at the rate of ¥102=U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

\*2 Long-term debt and payables includes the current portion of long-term debt and long-term payables.

\*3 EBITDA = Operating income + Depreciation

\*4 The Company conducted a stock split on July 1, 2011, at a ratio of 100 ordinary shares for each ordinary share.

\*5 Rate of total distribution on net assets = (total dividends + acquisitions of treasury stock) / consolidated net assets

						Billions of yen	Millions of U.S. dollars*1
2008	2009	2010	2011	2012	2013	2014	2014
¥ 1,290.1	¥ 1,275.3	¥ 1,190.1	¥ 1,213.5	¥ 1,287.6	¥ 1,298.9	<b>¥ 1,331.0</b>	<b>\$ 13,049</b>
137.4	122.5	76.5	95.9	109.7	129.4	<b>134.5</b>	<b>1,319</b>
57.7	54.5	24.8	34.9	29.4	60.1	<b>65.6</b>	<b>643</b>
2,462.8	2,461.8	2,546.3	2,672.4	2,642.9	2,613.7	<b>2,687.8</b>	<b>26,351</b>
957.2	953.2	1,038.9	1,102.6	1,068.8	983.0	<b>980.7</b>	<b>9,615</b>
—	—	—	—	—	—	<b>—</b>	<b>—</b>
670.8	689.6	702.1	721.2	733.5	768.1	<b>807.3</b>	<b>7,915</b>
222.1	178.8	161.3	223.2	206.2	238.0	<b>237.7</b>	<b>2,330</b>
(179.2)	(172.6)	(208.7)	(246.2)	(199.1)	(154.7)	<b>(165.3)</b>	<b>(1,621)</b>
(55.8)	(10.1)	54.6	51.4	(36.8)	(85.2)	<b>(47.8)</b>	<b>(468)</b>
128.0	137.0	141.9	150.8	169.3	160.8	<b>153.9</b>	<b>1,508</b>
187.9	163.9	210.1	260.0	195.4	152.9	<b>166.7</b>	<b>1,634</b>
265.4	259.5	218.4	246.8	279.1	290.3	<b>288.4</b>	<b>2,828</b>
						Yen	U.S. dollars*1
¥ 28,954	¥ 27,729	¥ 12,837	¥ 18,066	¥ 152.29	¥ 310.87	<b>¥ 338.98</b>	<b>\$ 3.32</b>
6,000	7,000	7,000	8,000	90.00	110.00	<b>115.00</b>	<b>1.12</b>
322,294	339,113	345,568	355,712	3,632.41	3,850.82	<b>4,048.31</b>	<b>39.68</b>
						%	
5.6	5.0	3.1	3.7	4.1	4.9	<b>5.1</b>	
9.3	8.4	3.7	5.2	4.2	8.3	<b>8.6</b>	
1.9	2.1	2.0	2.3	2.5	2.9	<b>2.9</b>	
—	—	—	—	—	—	<b>2.9</b>	
25.9	26.7	26.3	25.8	26.6	28.5	<b>29.2</b>	

# Management's Discussion and Analysis of Operations

Consolidated Basis

## Results of Operations

For fiscal 2014, ended March 31, 2014, operating revenues rose ¥32.1 billion, or 2.5% year on year, to ¥1,331 billion, as both the Shinkansen and conventional lines enjoyed strong traffic mainly during the Obon holidays in August and the year-end and New Year's holidays, while there was an increase in revenue from condominium sales and construction related to the Hokuriku Shinkansen project.

Operating expenses increased ¥27 billion, or 2.3% year on year, to ¥1,196.4 billion due to an increase non personnel cost and the cost of sales from an increase in revenue related to condominium sales and construction work on the Hokuriku Shinkansen. Operating income, therefore, increased ¥5.0 billion, or 3.9% year on year, to ¥134.5 billion.

Net non-operating expenses fell ¥3.1 billion year on year, to ¥21.6 billion, because of factors like lower interest expense following the repayment of long-term debt.

Net extraordinary losses were reduced by ¥3.7 billion year on year to ¥1.2 billion. This was attributed to the reversal of reserve for retirement benefit obligations stemming from the establishment of a new reemployment system and the fact there were no impairment losses related to the JR Osaka Mitsukoshi Isetan department store in OSAKA STATION CITY.

Net income rose ¥5.4 billion, or 9.0%, year on year, to ¥65.6 billion.

## Factors Affecting Revenues

Railway transportation accounts for the bulk of revenues in the transportation operations segment. Railway transportation revenues depend mostly on numbers of passengers served, and are, therefore, affected by numerous factors such as competition from airlines and other modes of transportation, competition from rival railway companies, economic conditions, and the falling birthrate and aging population. We believe railway passengers make transportation decisions based on considerations of safety and reliability, to begin with, but also travel times, the comprehensiveness of the railway network, fares, and levels of comfort.

Sanyo Shinkansen revenues are determined mainly by the numbers of business and leisure passengers served, and are therefore, affected by factors such as economic conditions and competition with airlines.

In comparison, the Urban Network serves mainly work and school commuters, so its revenues, we believe, are much less affected by economic conditions. Urban Network revenues, however, are still susceptible to the falling birthrate, aging population, urbanization, and other demographic changes. For some of JR-West's other conventional lines, intercity transport revenues are affected by economic conditions and

competition with intercity bus services and private automobiles. Local line revenues, meanwhile, are subject to the impacts of competition with private automobiles, local economic conditions, and population shifts.

Retail business segment revenues come mainly from department store, merchandise, and restaurant operations. They are affected by economic conditions, and competition from other department stores, retailers, and restaurants. In addition, most of the businesses in this segment operate in or near train stations, so they are also subject to the impacts of railway traffic volume. That said, however, train stations enjoy relatively stable usage, so we believe the segment's revenues are less affected by these factors than are the operations of other companies. Other factors affecting the segment's revenues include opening of new stores and closing of existing stores.

In the real estate business segment, revenues come mainly from the leasing of station and nearby facilities. These revenues are affected by economic conditions, but the relatively stable customer traffic, and tenant preference for stations and nearby office buildings because of their convenience, means that economic conditions are less of a concern than they are for other companies in the same business. Most of the Group's leasing contracts call for the payment of fixed rent and rent based on sales, so segment revenues change in response to tenant sales. The sales-dependent portion of rent, therefore, can be increased by bringing in popular stores, and it is important to increase the customer-drawing power of stations and shopping centers. The remodeling of store interiors and updating of store mixes is an important element for the latter.

The other businesses segment's revenues come mainly from hotel and travel agency operations. Hotel operation revenues are affected by economic conditions, room rates, and competition from other hotels. Revenues for travel agency operations, meanwhile are affected mainly by competition from other travel agencies and factors, like economic conditions and terror, that could discourage travel. In addition to hotel and travel agency operations, the other businesses segment includes construction, advertising, and other operations, most of which share the common purposes of strengthening the customer base for the mainstay railway operations, and enhancing station and other facilities.

## Factors Affecting Expenses

Due to the age structure of its workforce, and other factors, the Company is currently experiencing employee retirements at elevated levels, but, through recruitment and other measures, has secured the number of personnel needed to conduct business operations. For fiscal 2014, personnel costs rose ¥2.0 billion year on year, to ¥235.4 billion.

As for non-personnel costs, the Company is working to achieve cost reductions through structural measures. Railway operations are characterized by (i) ownership of a large amount of facilities and equipment entailing relatively high maintenance costs to ensure safety and (ii) a high proportion of fixed costs, which are not linked to revenues. The Company, therefore, with safety as its highest priority, is striving to cut costs through steps like the introduction of rolling stock and equipment that are easily maintained, mechanization, and improvement of existing infrastructure. At the same time, however, the Company fully appreciates the weight of its responsibility for the accident on the Fukuchiyama Line and is drawing upon all of its capabilities to build a safe railway that gives peace of mind and earns trust. Elevated costs for enhancing safety, therefore, are expected to be incurred for the foreseeable future. It is also expected that enhancing competitiveness against other transportation modes will entail additional costs for purposes like raising service levels, introducing IT for promoting sales, and increasing outsourcing to improve operational efficiency.

Regarding railway usage charges, JR-West leases the JR Tozai Line from Kansai Rapid Railway Co., Ltd. Since fiscal 2005, the annual amount of the railway usage charge has been renegotiated every three years and set after considering interest rate changes and other factors. As a result, railway usage charges have been reduced from fiscal 2012 onward. For the fiscal year under review, expenses paid were approximately ¥15.2 billion.

Among non-operating expenses, interest expense is a major factor. The JR-West Group pays close attention to the levels of its total long-term liabilities and total interest expense with the aim of preserving the stability of operations. For fiscal 2014, the Group's interest expense declined ¥2.4 billion, to ¥28 billion, as a result of the repayment of long-term debt.

## Cash Flows

Net cash provided by operating activities decreased ¥200 million year on year to ¥237.7 billion, due to factors such as an increase in income tax payments.

Net cash used in investing activities increased ¥10.6 billion year on year to ¥165.3 billion because of an increase in outlays for the acquisition of property, plant and equipment.

Net cash used in financing activities decreased ¥37.4 billion year on year to ¥47.8 billion due to factors such as a decrease in outlays for the repayment of long-term liabilities.

As a result, cash and cash equivalents as of March 31, 2014 amounted to ¥72.9 billion, up ¥24.5 billion from the end of the previous fiscal year.

## Capital Demand and Capital Expenditures

In fiscal 2014, the JR-West Group undertook capital expenditures totaling ¥189.0 billion, of which the transportation operations segment accounted for ¥162.6 billion, the retail business segment ¥3.3 billion, the real estate business segment ¥15.5 billion, and the other businesses segment ¥7.5 billion. Capital expenditures in the transportation operations segment consisted mainly of railroad infrastructure, primarily for safety enhancements, and purchases of new rolling stock to replace aged rolling stock. The Group's capital expenditures in the retail, real estate, and other businesses segments were mainly for construction of new facilities and renovation of aged facilities.

The JR-West Group fully appreciates the weight of its responsibility for the accident that occurred on the Fukuchiyama Line and is drawing upon all of its capabilities to build a safe railway that gives peace of mind and earns trust. All operational safety equipment and other infrastructure-based initiatives necessary for further enhancing safety are being taken and consideration of various other measures to bolster safety will continue.

## Liquidity and Financing

The JR-West Group receives substantial amounts of cash on a daily basis mainly from the transportation operations segment, and believes it has secured a sufficient level of liquid assets.

At the same time, however, the Group recognizes that improving capital efficiency is extremely important for business management. Beginning in October 2002, therefore, the Group introduced a cash management service (CMS) to ensure effective utilization of Group funds.

Regarding financing, the JR-West Group procures funds for the portion of repayments of existing debt, capital expenditures, and other expenses that cannot be covered by the Group's cash flows. The Group makes determinations on financing methods, including corporate bonds and long-term bank loans, based on a comprehensive consideration of market trends, interest rates, and other factors. For short-term financing needs, the basic policy is to raise the necessary capital mainly through short-term bonds.

Furthermore, we have concluded commitment line contracts allowing procurement of funds, in accordance with prescribed conditions, 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 25, 2014. 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

If an accident were to occur in the transportation business it could jeopardize customers' lives and result in serious damages to property, and in turn adversely affect the management of the Company. With its core business railway operations, the Company recognizes that its most important task is to provide high quality, highly reliable and safe transportation services.

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 proposals and opinions included in the report on the Fukuchiyama Line accident published by the Aircraft and Railway Accidents Investigation Commission in June 2007. In addition, the Company will steadily achieve higher levels of safety through the "continual effort to realize safe, reliable transport service," and by "increasing levels of risk assessment," "increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life," and moving forward with "investment in safety," all of which are high priorities and have been set forth in the "Safety Think-and-Act Plan 2017" inaugurated in March 2013. The Company is also working to establish a safety management system in accordance with its "Railway Safety Management Manual," created based on the revised Railway Business Act, which came into effect 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 assignments, 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.

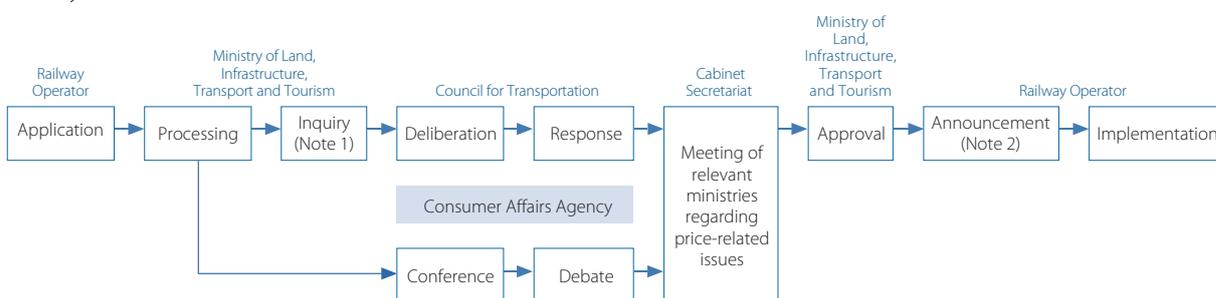
### 3 Relating to Establishment of and Changes to Fares and Surcharges

#### 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).

Based on recent examples set by major private sector railway operators, the process of applying and receiving approval to change fares from the MLIT is as follows.



Notes: 1 This procedure is pursuant to article 62, item 2, of the Railway Operation Act. Further, in accordance with article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism (1999, Law No. 100), a press conference must be held in cases when deliberation by the Council for Transportation is required or when directions are received from the Minister of the MLIT.  
2 Article 3, item 2, of the Railway Operation Act stipulates that, when a company violates the limits of fares or other transportation conditions, an announcement must be made within 7 days of the violation.

Moreover, in order to improve the convenience of users when reforming national railways, a system is currently in place under which the total fares or other costs associated with customers or cargo traveling between two or more transportation providers can be decided based on contracts between the companies involved. This system generally allows for lower fares for longer travel distances. Furthermore, this system does not interfere with transportation providers' ability to establish their own pricing systems.

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

- JR-West has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revision (April 1997 and April 2014). 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.
- 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.
- The Company recognizes the need to independently conduct capital expenditures, which have a substantial impact on the cost structure of its railway operations, based upon its clearly defined management responsibility.

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

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

- The MLIT will approve applications for the revision of the upper limits of fares from railway operators, including JR-West, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and fair profits, based on the efficient management of those companies ("total cost") (Railway Business Law, article 16, item 2). In addition, a three-year period is stipulated for the calculation of costs.
- Even if the railway operator has non-railway businesses, the calculation of total cost, which comprises reasonable costs and fair profits, including required dividend payments to its shareholders, is based only on the operator's railway operations. Further, railway operators are required to submit their capital expenditure plans for increasing transportation services to ease congestion of commuter services and for other improvements in passenger services. Upon inspections, the capital cost necessary for such enhancements may be approved for the calculation of total cost.

## Operational and Other Risk Information

(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 (Note 1) + operational return
- operational return = assets utilized in railway business operations (rate base) × operational return rate
  - assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital (Note 2)
  - operational return rate = equity ratio (Note 3) × return rate on equity (Note 4) + borrowed capital ratio (Note 3) × return rate on borrowed capital (Note 4)

Notes: 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 therefore 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–Shin-Aomori), and the Kyushu Shinkansen Line (between Hakata–Kagoshima–Chuo). Currently, the construction contractor, Japan Railway Construction, Transport and Technology Agency (JRRTT), is progressing construction on the following sections of the three lines: the Hokuriku Shinkansen Line (between Nagano–Tsuruga), the Hokkaido Shinkansen Line (between Shin-Aomori–Sapporo), and the Kyushu Shinkansen Line (Nagasaki route between Takeo Onsen–Nagasaki).

### 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
- December 2011  
(items confirmed by the national government and ruling parties) Confirmation of future policies regarding the development of Shinkansen lines  
*Details of the items confirmed by the national government and ruling parties regarding the Hokuriku Shinkansen Line in December 2011*  
 For new segments of track, construction is to begin after necessary approval procedures have been conducted for segments for which profitability and investment effectiveness have been reconfirmed and for which the conditions outlined below have been met and issues (see notes below) have been addressed.

Segment	Conditions to be met before approval / construction	Scheduled completion / start of operation
Between Hakusan car maintenance center–Tsuruga	<ul style="list-style-type: none"> <li>• Approval by JR-West</li> <li>• Approval by municipal governments bordering tracks with regard to separate management of parallel conventional lines</li> </ul>	Over 10 years from start of services between Nagano–Hakusan car maintenance center (end of fiscal 2015)

Notes: Network development west of Tsuruga will be conducted based on the following policies.

- Due to financial limitations, it will be difficult to develop such a network prior to the completion of the three segments currently under way due to financial limitations. However, as the opening of lines extending to Tsuruga will increase connection points to main lines, we are considering the development of a network connecting the Kanto and Kansai regions through Hokuriku.
- Measures to prevent reduced passenger convenience stemming from the need to change trains at Tsuruga will be considered based on the opinions of JR-West and relevant municipal governments.

### 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
- June 2012  
Hakusan car maintenance center–Tsuruga segment (114 km): 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 JRJT, 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.

The expected profitability of the Hokuriku Shinkansen Line was announced in the form of a trial calculation by the MLIT in consideration of the items confirmed by the national government and ruling parties in December 2011. However, the usage fees to be paid after the start of services are not to be influenced by this trial calculation, but rather are to be decided based on discussions before the start of services and are to be contained within the bounds of the income generated by the lines.

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

Based on the items confirmed by the national government and ruling parties in December 2011, the MLIT granted the Company approval to begin construction of the segment between the Hakusan car maintenance center and Tsuruga and also approved our plans to introduce gauge change trains (GCTs) on track segments west of Tsuruga and conduct direct services between Shinkansen and conventional lines in the future.

As the establishment of Shinkansen lines between Kanazawa and Osaka should create significant reductions in travel time, we feel it would be most beneficial to start services on all lines running to Osaka. However, for the time being, we have informed the MLIT that we have agreed to the plan to start construction as far as Tsuruga and that there were no objections to the plan to introduce GCTs. This decision was reached in consideration of the travel time reductions that will be realized by extending lines to Tsuruga, which connects the Kansai and Chukyo regions to Hokuriku, and the increased convenience achieved by eliminating the need to change trains at Tsuruga through the use of GCTs. Furthermore, in introducing GCTs, we realize that it will be of the utmost importance to take steps to ensure the safety, durability, and maintainability of the trains, and also develop measures to address snow.

But even if segments to undergo construction are extended with the aim of starting services on all lines, 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.

## Operational and Other Risk Information

### 5 Relating to Changing Population Dynamics, such as the Declining Birthrate and Aging Population

According to "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 January 2012, Japan's total population of 128.06 million people in 2010 was set to enter a long-standing depopulation process, and by 2048 was projected to fall below 100.00 million people, to 99.13 million people. The working-age population (15 to 64) peaked in 1995, and subsequently entered a depopulation phase. By 2010, it had fallen to 81.73 million people, and by 2030 it is forecast to decrease to 67.73 million people. In contrast, the old-age population (65 and over), which was 29.48 million people in 2010, was projected to increase to 36.85 million people by 2030.

According to the Population Projections by Region, released by the National Institute of Population and Social Security Research in March 2013, populations in all regional blocks other than the Southern Kanto, Chubu, and Kinki blocks were declining by 2005. The Kinki block joined the group of blocks with declining populations from 2005 to 2010, and all regional blocks are projected to be experiencing population declines by 2020. The working-age population and its percentage of the total are already declining in each prefecture, and the elderly population is projected to continue increasing through 2020, when it will exceed 30% of the total population in most regions.

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. This may also impact the Group's ability to secure the human resources that support its business operations.

### 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. As a result, 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 stemming from the improved convenience of flying due to 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 and Mizuho Shinkansen services, and improving online reservation services, such as the "EX-IC service" and the "e5489" on the Sanyo Shinkansen Line, while also developing attractively priced products in response to actions by airline companies, such as the "Super Haya-toku" early discount tickets. Additionally, the Company is improving the competitiveness of the Shinkansen by promoting interaction between both regions and the development of information infrastructure in these regions.

In its Urban Network, the Company competes with other railway operators and with automobiles and buses. In March 2014, it revised timetables and is promoting usage of its services through increased services of the Biwako Express limited express trains and improvements made primarily to the transportation capacity of the JR Yumesaki Line.

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 retail business, 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 retail business, 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 stations and the areas surrounding them, it can be considered to

possess competitive advantages in terms of advantageous locations. For the JR Osaka Mitsukoshi Isetan Department Store, located in Osaka Station, the Group is moving ahead with an examination of fundamental business revitalization measures, as we strive to create stores capable of earning the patronage of local customers.

The Group is contributing to the invigoration of communities by enhancing the quality of the railway, expanding non-transportation operations, and promoting new business creation. To that end we are deepening interaction and ties with communities, and working together as a corporate group to develop businesses with close ties to areas.

## 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.

Consolidated long-term debt at March 31, 2014, stood at ¥980.7 billion (including the current portion thereof), or roughly the same as the previous fiscal year-end. Interest payments for the fiscal years ended March 31, 2012, 2013, and 2014, were ¥32.9 billion, ¥30.4 billion, and ¥28.0 billion, respectively.

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 (Osaka Higashi Line)

### 1. 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)
- July 2013  
Approval to change the basic business plan with regard to new station openings (between JR Nagase and Shin-Kami)

### 2. 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)

## Operational and Other Risk Information

### 3. 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.

### 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. Furthermore, in response to the Company's increased dependence on IT and in consideration of the impacts of the Great East Japan Earthquake, which occurred on March 11, 2011, the Company has strengthened and revised the facilities and infrastructure used to maintain the stable operation of its computer systems and is systematically instituting natural disaster countermeasures.

### 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. For example, 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 Company is working hard to in terms of disaster preparedness and disaster reduction measures to minimize damages caused by serious natural disasters in the future that will impact its business. Specifically, the Company has rolled out earthquake early detection and warning systems or the Sanyo Shinkansen and earthquake emergency news flash systems that also include conventional lines. The Company is steadily carrying out earthquake resistance reinforcement on its elevated tracks, bridges and support pillars to prepare for an earthquake in the Nankai Trough, which is expected to occur in the future. The Company is also making efforts to facilitate speedy evacuations in case of a tsunami, which includes practical drills, publication of the Tsunami Evacuation Guidance Manual and installation of evacuation route signage. Furthermore, based on the derailment of the Shinkansen during the Mid Niigata prefecture Earthquake in October 2004, the Shinkansen Derailment Countermeasures Committee was set up by the government to review earthquake countermeasures for the Shinkansen and promote the development of related technologies. The findings of this committee are helping the Company to develop facilities that will prevent the derailment of trains in operating during an earthquake, which in turn will prevent the possible spread of damages. In September 2013, a new indicator was added to the conventional line operation regulations for earthquakes, changing the handling of such situations to prioritize safety above all else.

It is also developing other measures to prevent, to the greatest possible extent, serious damages to the Group's operations due to occurrences such as heavy rainfall and landslides.

As another one of its 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.

Further, in addition to such direct damages caused by natural disasters as those mentioned above, there is the possibility that a major natural disaster could cause electricity shortages or other such issues, which may subsequently affect the Group's railway and other operations.

## 11 Relating to an Infectious Disease Outbreak and Epidemic

If a long-term infectious disease epidemic, such as Severe Acute Respiratory Syndrome (SARS) which there was an outbreak of in 2003 or the extremely dangerous swine influenza virus, should occur in West Japan, it is feared that this would have impacts such as limiting economic activities and causing passengers to refrain from taking trips. There is a danger that such an epidemic—if it entails the infection of a significant portion of the Company's workforce—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.

The Group is taking necessary measures to provide appropriate levels of transportation during an outbreak of pandemic influenza, while working closely with government affiliated institutions and local governments, in accordance with the Act on Special Measures for Preparedness and Response against Pandemic Influenza and New Infectious Disease enacted in April 2013.

## 12 Relating to Compliance

The Company, in conducting its 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 2009, with regard to a grave issue concerning compliance that had come up in the investigation of the Fukuchiyama Line accident 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 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 to

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 to promote good corporate ethics. The Company has also established the Ethics Office and the Public Interest Information Office to offer advice and to 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. The Company is also taking active steps to improve corporate ethics education for employees. In December 2010, the Company submitted a report to the MLIT detailing the status of implementation of these and other remediation measures. Furthermore, in February 2012 the Corporate Ethics Committee compiled a report based on the discussions conducted and the subsequent advice received to date. We aim to incorporate the proposals made in this report into our compliance initiatives.

## 13 Relating to the Fukuchiyama Line 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. In regard to the trial to determine the criminal liability for professional negligence resulting in the deaths and injuries in relation to that accident of Masao Yamazaki, former President and Representative Director, the Kobe District Court handed down a judgment of "not guilty" on January 11, 2012, and the decision was finalized in the same month.

In addition, pursuant to the ruling of the Kobe No. 1 Committee for the Inquest of Prosecution, on April 23, 2010, designated attorneys serving as public prosecutors indicted three former Presidents and Representative Directors of the Company—Masataka Ide, Shojiro Nan-ya, and Takeshi Kakiuchi. Since July 6, 2012, the Kobe District Court has been conducting proceedings. On September 27, 2013, the Kobe District Court issued a verdict of not guilty and on October 7, 2013 the designated attorneys serving as public prosecutors appealed this decision to the Osaka High Court.

The Company will continue its efforts to sincerely listen to the opinions of the victims of the 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.

## Financial Statements

# Consolidated Balance Sheet

West Japan Railway Company and its consolidated subsidiaries  
As of March 31, 2014 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
<b>Assets</b>			
<b>Current assets:</b>			
Cash (Notes 4, 11 and 21)	¥ 55,203	¥ 48,636	\$ 541
Short-term investments (Notes 4, 5 and 21)	18,000	—	176
Notes and accounts receivable (Note 21):			
Unconsolidated subsidiaries and affiliates	2,046	1,292	20
Trade	116,560	98,094	1,142
Less allowance for doubtful accounts	(638)	(757)	(6)
Inventories (Note 6)	44,215	37,928	433
Income taxes refundable (Note 13)	338	36	3
Deferred income taxes (Note 13)	18,622	19,011	182
Prepaid expenses and other current assets	44,067	41,169	432
<b>Total current assets</b>	<b>298,414</b>	<b>245,410</b>	<b>2,925</b>
<b>Investments:</b>			
Unconsolidated subsidiaries and affiliates (Notes 7 and 21)	52,909	49,518	518
Other securities (Notes 5, 11 and 21)	14,449	13,421	141
<b>Total investments</b>	<b>67,359</b>	<b>62,940</b>	<b>660</b>
<b>Property, plant and equipment, at cost</b> (Notes 8, 9 and 11):			
Land	659,947	659,045	6,470
Buildings and structures	3,110,627	3,078,064	30,496
Machinery, equipment and vehicles	1,293,092	1,253,946	12,677
Tools, furniture and fixtures	131,016	130,080	1,284
Construction in progress	75,521	50,631	740
	5,270,203	5,171,769	51,668
Less accumulated depreciation	(3,135,004)	(3,050,948)	(30,735)
<b>Property, plant and equipment, net</b>	<b>2,135,199</b>	<b>2,120,820</b>	<b>20,933</b>
<b>Deferred income taxes</b> (Note 13)	<b>128,520</b>	<b>120,804</b>	<b>1,260</b>
<b>Asset for retirement benefits</b> (Note 15)	<b>1,469</b>	<b>—</b>	<b>14</b>
<b>Other assets</b>	<b>56,927</b>	<b>63,766</b>	<b>558</b>
<b>Total assets</b> (Note 23)	<b>¥ 2,687,890</b>	<b>¥ 2,613,743</b>	<b>\$ 26,351</b>

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Short-term loans (Notes 10 and 21)	¥ 25,754	¥ 24,124	\$ 252
Current portion of long-term debt (Notes 10, 11 and 21)	46,572	39,918	456
Current portion of long-term payables (Notes 12 and 21)	38,104	39,701	373
Notes and accounts payable (Notes 11 and 21):			
Unconsolidated subsidiaries and affiliates	8,242	6,885	80
Trade	163,133	141,051	1,599
Prepaid railway fares received	50,997	32,828	499
Deposits and advances received (Note 21)	99,858	94,188	979
Accrued expenses (Note 21)	29,334	28,978	287
Accrued income taxes (Notes 13 and 21)	27,248	27,817	267
Accrued bonuses for employees	35,921	35,054	352
Allowance for customer point programs	1,418	1,193	13
Deferred income taxes (Note 13)	287	178	2
Other current liabilities	12,645	42,699	123
<b>Total current liabilities</b>	<b>539,520</b>	<b>514,620</b>	<b>5,289</b>
<b>Long-term debt</b> (Notes 10, 11 and 21)	<b>732,789</b>	<b>702,263</b>	<b>7,184</b>
<b>Long-term payables</b> (Notes 12 and 21)	<b>171,891</b>	<b>210,032</b>	<b>1,685</b>
<b>Liability for retirement benefits</b> (Note 15)	<b>326,823</b>	<b>—</b>	<b>3,204</b>
<b>Accrued retirement benefits</b> (Note 15)	<b>—</b>	<b>304,486</b>	<b>—</b>
<b>Allowance for environmental safety measures</b>	<b>10,204</b>	<b>10,712</b>	<b>100</b>
<b>Allowance for unutilized gift tickets</b>	<b>2,568</b>	<b>2,609</b>	<b>25</b>
<b>Deferred income taxes</b> (Note 13)	<b>405</b>	<b>357</b>	<b>3</b>
<b>Other long-term liabilities</b>	<b>96,309</b>	<b>100,487</b>	<b>944</b>
<b>Total long-term liabilities</b>	<b>1,340,991</b>	<b>1,330,948</b>	<b>13,146</b>
<b>Contingent liabilities</b> (Note 16)			
<b>Net assets:</b>			
Shareholders' equity (Note 17):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2014 and 2013			
Issued and outstanding – 193,735,000 shares at March 31, 2014 and 198,256,600 shares at March 31, 2013	100,000	100,000	980
Capital surplus	55,000	55,000	539
Retained earnings (Note 24)	632,187	609,508	6,197
Less treasury stock, at cost – 96,571 shares at March 31, 2014 and 4,615,100 shares at March 31, 2013	(359)	(21,995)	(3)
Total shareholders' equity	786,828	742,513	7,714
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 5)	3,429	2,677	33
Net unrealized deferred gain on hedging instruments	557	488	5
Retirement benefits liability adjustments	(6,906)	—	(67)
Total accumulated other comprehensive (loss) income	(2,920)	3,165	(28)
Minority interests	23,470	22,495	230
<b>Total net assets</b>	<b>807,378</b>	<b>768,174</b>	<b>7,915</b>
<b>Total liabilities and net assets</b>	<b>¥ 2,687,890</b>	<b>¥ 2,613,743</b>	<b>\$ 26,351</b>

See accompanying notes to consolidated financial statements.

## Financial Statements

# Consolidated Statement of Income

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
<b>Operating revenues</b> (Note 23)	¥ 1,331,019	¥ 1,298,913	\$ 13,049
<b>Operating expenses:</b>			
Transportation, other services and cost of sales	1,015,174	993,333	9,952
Selling, general and administrative expenses (Note 18)	181,251	176,082	1,776
	1,196,426	1,169,416	11,729
<b>Operating income</b> (Note 23)	134,593	129,497	1,319
<b>Other income (expenses):</b>			
Interest and dividend income	516	393	5
Interest expense	(28,053)	(30,490)	(275)
Equity in earnings of affiliates	1,445	579	14
Provision of allowance for environmental safety measures	—	(4,709)	—
Gain on reversal of accrued retirement benefits	—	18,418	—
Loss on impairment of fixed assets	(54)	(19,706)	(0)
Other, net	3,240	5,692	31
	(22,905)	(29,821)	(224)
<b>Income before income taxes and minority interests</b>	111,687	99,676	1,094
<b>Income taxes</b> (Note 13):			
Current	47,965	45,169	470
Deferred	(3,339)	2,062	(32)
	44,625	47,231	437
<b>Income before minority interests</b>	67,061	52,444	657
<b>Minority interests</b>	(1,421)	7,754	(13)
<b>Net income</b>	¥ 65,640	¥ 60,198	\$ 643

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥ 67,061	¥ 52,444	\$ 657
<b>Other comprehensive income</b> (Note 19):			
Net unrealized holding gain on securities	754	1,669	7
Net unrealized deferred gain on hedging instruments	86	829	0
The Company's share of other comprehensive income of affiliates accounted for by the equity method	41	109	0
Total other comprehensive income	881	2,608	8
<b>Total comprehensive income</b>	¥ 67,943	¥ 55,053	\$ 666

Comprehensive income (loss) attributable to the shareholders of the Company and minority shareholders of consolidated subsidiaries for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
Comprehensive income attributable to shareholders of the Company	¥ 66,460	¥ 62,635	\$ 651
Comprehensive income (loss) attributable to minority shareholders of consolidated subsidiaries	1,482	(7,582)	14

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2014 and 2013

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Minority interests	Total net assets
Balance at April 1, 2012	¥100,000	¥55,000	¥577,999	¥(30,343)	¥702,656	¥ 902	¥(173)	—	¥ 728	¥30,161	¥733,546
Net income for the year	—	—	60,198	—	60,198	—	—	—	—	—	60,198
Cash dividends	—	—	(20,342)	—	(20,342)	—	—	—	—	—	(20,342)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Cancellation of treasury stock	—	—	(8,347)	8,347	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	—	1,775	661	—	2,437	(7,665)	(5,228)
Balance at April 1, 2013	¥100,000	¥55,000	¥609,508	¥(21,995)	¥742,512	¥2,677	¥488	—	¥3,165	¥22,495	¥768,174
Net income for the year	—	—	<b>65,640</b>	—	<b>65,640</b>	—	—	—	—	—	<b>65,640</b>
Cash dividends	—	—	<b>(21,310)</b>	—	<b>(21,310)</b>	—	—	—	—	—	<b>(21,310)</b>
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Cancellation of treasury stock	—	—	<b>(21,649)</b>	<b>21,649</b>	—	—	—	—	—	—	—
Change of scope of equity method	—	—	—	(12)	(12)	—	—	—	—	—	(12)
Net changes in items other than shareholders' equity	—	—	—	—	—	751	68	<b>(6,906)</b>	<b>(6,086)</b>	974	<b>(5,111)</b>
Balance at March 31, 2014	<b>¥100,000</b>	<b>¥55,000</b>	<b>¥632,187</b>	<b>¥ (359)</b>	<b>¥786,828</b>	<b>¥3,429</b>	<b>¥557</b>	<b>¥(6,906)</b>	<b>¥(2,920)</b>	<b>¥23,470</b>	<b>¥807,378</b>

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Minority interests	Total net assets
Balance at April 1, 2013	\$980	\$539	\$5,975	\$(215)	\$7,279	\$26	\$4	—	\$31	\$220	\$7,531
Net income for the year	—	—	<b>643</b>	—	<b>643</b>	—	—	—	—	—	<b>643</b>
Cash dividends	—	—	<b>(208)</b>	—	<b>(208)</b>	—	—	—	—	—	<b>(208)</b>
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Cancellation of treasury stock	—	—	<b>(212)</b>	<b>212</b>	—	—	—	—	—	—	—
Change of scope of equity method	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Net changes in items other than shareholders' equity	—	—	—	—	—	7	0	<b>(67)</b>	<b>(59)</b>	9	<b>(50)</b>
Balance at March 31, 2014	<b>\$980</b>	<b>\$539</b>	<b>\$6,197</b>	<b>\$ (3)</b>	<b>\$7,714</b>	<b>\$33</b>	<b>\$5</b>	<b>\$(67)</b>	<b>\$(28)</b>	<b>\$230</b>	<b>\$7,915</b>

See accompanying notes to consolidated financial statements.

## Financial Statements

## Consolidated Statement of Cash Flows

West Japan Railway Company and its consolidated subsidiaries  
Years ended March 31, 2014 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2014	2013	2014
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥ 111,687	¥ 99,676	\$ 1,094
Adjustments for:			
Depreciation and amortization	153,903	160,852	1,508
Loss on impairment of fixed assets	54	19,706	0
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	13,972	12,166	136
Loss on disposal of property, plant and equipment	5,182	8,179	50
Increase in liability for retirement benefits, net	11,377	—	111
Decrease in accrued retirement benefits	—	(12,389)	—
(Decrease) increase in allowance for doubtful accounts	(263)	18	(2)
Increase in accrued bonuses for employees	867	567	8
(Decrease) increase in other accruals	(260)	4,611	(2)
Interest and dividend income	(516)	(393)	(5)
Interest expense	28,053	30,490	275
Equity in earnings of affiliates	(1,445)	(579)	(14)
Gain on contributions received for construction	(15,955)	(14,447)	(156)
Increase in notes and accounts receivable	(18,894)	(6,230)	(185)
Increase in inventories	(6,286)	(4,567)	(61)
Increase in notes and accounts payable	36,982	2,418	362
(Decrease) increase in accrued consumption taxes	(5,013)	1,171	(49)
Other	829	4,461	8
Subtotal	314,275	305,712	3,081
Interest and dividend income received	516	399	5
Interest paid	(28,222)	(30,325)	(276)
Income taxes paid	(48,835)	(37,775)	(478)
<b>Net cash provided by operating activities</b>	<b>237,733</b>	<b>238,010</b>	<b>2,330</b>
<b>Cash flows from investing activities</b>			
Payments for time deposits with a maturity in excess of three months	(231)	(245)	(2)
Proceeds from time deposits with a maturity in excess of three months	230	230	2
Purchases of property, plant and equipment	(182,585)	(169,400)	(1,790)
Proceeds from sales of property, plant and equipment	2,153	1,658	21
Contributions received for construction	20,009	17,062	196
Increase in investments in securities	(2,464)	(1,655)	(24)
Proceeds from sales of investments in securities	127	323	1
Increase in long-term loans receivable	(302)	(529)	(2)
Collection of long-term loans receivable	431	754	4
Other	(2,724)	(2,939)	(26)
<b>Net cash used in investing activities</b>	<b>(165,356)</b>	<b>(154,741)</b>	<b>(1,621)</b>
<b>Cash flows from financing activities</b>			
Increase in short-term loans	1,541	615	15
Proceeds from long-term loans	66,200	32,200	649
Repayment of long-term loans	(38,805)	(72,098)	(380)
Proceeds from issuance of bonds	10,000	25,000	98
Redemption of bonds	—	(30,000)	—
Repayment of long-term payables	(39,705)	(40,869)	(389)
Purchases of treasury stock	(0)	(0)	(0)
Cash dividends paid to the Company's shareholders	(21,300)	(20,319)	(208)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(115)	(49)	(1)
Other	(25,624)	20,253	(251)
<b>Net cash used in financing activities</b>	<b>(47,811)</b>	<b>(85,267)</b>	<b>(468)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>24,565</b>	<b>(1,998)</b>	<b>240</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>48,390</b>	<b>50,389</b>	<b>474</b>
<b>Cash and cash equivalents at end of year (Note 4)</b>	<b>¥ 72,956</b>	<b>¥ 48,390</b>	<b>\$ 715</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

West Japan Railway Company and its consolidated subsidiaries  
March 31, 2014

## 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.

Certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net asset.

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 ¥102 = U.S.\$1.00, the exchange rate prevailing on March 31, 2014. 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 (the equity method). 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.

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.

The balance sheet date of one affiliate is September 30 and the Company applied the equity method to its investments in this affiliate using the most recent financial statements as of the fiscal year end. The balance sheet date of the remaining affiliates is the same as that of the consolidated financial statements.

#### (2) Cash and cash equivalents

For the purpose of the consolidated statement 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) Short-term investments and investments in securities

Marketable securities classified as other 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. Non-marketable securities classified as other securities are stated at cost primarily 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, cost being 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 specific 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 (Note 8). 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.

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.

#### (8) Research and development costs

Research and development costs are charged to income as incurred.

## Financial Statements

### Notes to Consolidated Financial Statements

#### (9) Goodwill and negative goodwill

Goodwill is amortized over a period of five years on a straight-line basis. Negative goodwill arising from transactions that occurred on or before March 31, 2010 is amortized over a period of five years on a straight-line basis. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is credited to income when incurred.

#### (10) 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.

#### (11) 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.

#### (12) 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.

#### (13) Accrued bonuses for employees

Accrued bonuses for employees are provided at an expected payment amount of the bonuses to employees.

#### (14) 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.

#### (15) Retirement benefits

The asset and liability for retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

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 is being amortized over a period of fifteen years.

Prior service cost is principally charged to income when incurred.

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 period of ten years, which is shorter than the average remaining years of service of the eligible employees.

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").

#### (16) Allowance for environmental safety measures

To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company and certain consolidated subsidiaries, an allowance at an amount reasonably estimated has been provided.

#### (17) Allowance for unutilized gift tickets

Unutilized gift tickets issued by certain consolidated subsidiaries are credited to income after a fixed period has passed from their respective dates of issuance. Certain consolidated subsidiaries provide an allowance for unutilized gift tickets at a reasonably estimated amount of future utilization based on the historical utilization ratio.

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

Revenues and costs of construction contracts 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.

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

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

#### (20) 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, currency swap contracts and interest-rate swap contracts are utilized to manage foreign currency and interest-rate risk. Forward foreign exchange contracts and 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 forward foreign exchange or 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").

The Company and its consolidated subsidiaries hedge foreign currency exchange rate risk and interest rate risk within certain ranges based on their internal rules for derivative transactions.

The relationship between the hedging instruments and the underlying hedged items is evaluated at each balance sheet date to confirm the effectiveness of hedging activities. However, an evaluation of effectiveness is omitted for currency swaps which meet certain conditions for applying the allocation method and interest-rate swaps which meet certain conditions for applying the special treatment.

## 2 Accounting Standards Issued but Not Yet Effective

On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.26, "Accounting Standards for Retirement Benefits" and ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits." As of March 31, 2014.

These accounting standards were issued from the viewpoint of improvements to financial reporting and international convergence. Under these accounting standards, unrecognized actuarial gains or losses and prior service cost are recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus is recognized as a liability or asset. In addition, a choice for the method of attributing expected benefits to periods between

either the straight-line basis or the plan's benefit formula basis is allowed. Furthermore, disclosures are enhanced.

The Company and its consolidated subsidiaries will adopt the amendment of the calculation method of the retirement benefit obligation and service costs effective April 1, 2014.

As a result of the adoption of these revised accounting standards, liability for retirement benefits will increase by approximately ¥50,700 million (\$497 million) and retained earnings will decrease by approximately ¥32,500 million (\$318 million) at April 1, 2014. In addition, operating income and income before income taxes and minority interests will increase by approximately ¥3,000 million (\$29 million), respectively, for the year ending March 31, 2015.

## 3 Changes in Accounting Policies

### Accounting standards for retirement benefits

Effective the year ended March 31, 2014, "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, revised on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, revised on May 17, 2012) were partially adopted. As a result of the partial adoption of these revised accounting standards, the differences between the retirement benefit obligation and plan assets at fair value is recognized as asset or liability for retirement benefits. Unrecognized net retirement benefit obligation at transition, actuarial gains or losses and prior service cost are recognized as asset or liability for retirement benefits.

The effect of the adoption of these revised accounting standards was included in accumulated other comprehensive income as retirement benefits liability adjustments as of March 31, 2014 in accordance with transitional accounting treatments provided in the revised accounting standards.

As a result of the adoption of these revised accounting standards, asset for retirement benefits of ¥1,469 million (\$14 million) and liability for retirement benefits of ¥326,823 million (\$3,204 million) were recorded and accumulated other comprehensive income decreased by ¥6,906 million (\$67 million) as of March 31, 2014.

## 4 Cash and Cash Equivalents

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2014 and 2013 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
	2014	2013	2014
Cash	¥ 55,203	¥ 48,636	\$ 541
Time deposits with original maturities in excess of three months included in cash	(246)	(245)	(2)
Certificate of deposits with the original maturity within three months included in short-term investments	18,000	—	176
Cash and cash equivalents	¥ 72,956	¥ 48,390	\$ 715

## 5 Short-Term Investments and Investments in Securities

The accounting standard for financial instruments requires that, except for investments in unconsolidated subsidiaries and affiliates, all other 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, 2014 and 2013. The standard further requires that other securities classified as other securities are stated at fair value, with any unrealized holding gain or loss reported as a separate component of net assets, net of deferred income taxes.

## Financial Statements

### Notes to Consolidated Financial Statements

Marketable securities classified as other securities at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen					
	2014			2013		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 6,361	¥ 11,214	¥ 4,852	¥ 5,043	¥ 8,919	¥ 3,875
Debt securities:						
Government bonds	151	157	6	187	194	6
Corporate bonds	25	25	0	31	32	1
Subtotal	6,537	11,397	4,859	5,261	9,145	3,883
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	650	637	(13)	2,092	1,923	(169)
Debt securities:						
Government bonds	100	99	(0)	12	12	(0)
Other	18,000	18,000	—	—	—	—
Subtotal	18,750	18,736	(13)	2,105	1,935	(169)
Total	¥ 25,288	¥ 30,134	¥ 4,846	¥ 7,367	¥ 11,081	¥ 3,713

	Millions of U.S. dollars		
	2014		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 62	\$ 109	\$ 47
Debt securities:			
Government bonds	1	1	0
Corporate bonds	0	0	0
Subtotal	64	111	47
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	6	6	(0)
Debt securities:			
Government bonds	0	0	(0)
Other	176	176	—
Subtotal	183	183	(0)
Total	\$ 247	\$ 295	\$ 47

## 6 Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Merchandise and real estate for sale	¥ 12,868	¥ 8,390	\$ 126
Contracts in process	16,647	15,045	163
Rails, materials and supplies	14,698	14,492	144
	¥ 44,215	¥ 37,928	\$ 433

## 7 Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Investments in:			
Unconsolidated subsidiaries	¥ 9,725	¥ 9,416	\$ 95
Affiliates	43,184	40,102	423
	¥ 52,909	¥ 49,518	\$ 518

## 8 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,

2014 and 2013 totaled ¥13,972 million (\$136 million) and ¥12,166 million, respectively. For railway services, the accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2014 and 2013 amounted to ¥670,229 million (\$6,570 million) and ¥660,449 million, respectively.

For railway services, the compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2014 and 2013 totaled ¥4,908 million (\$48 million) and ¥3,277 million, respectively.

## 9 Investment and Rental Properties

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 ¥38,439 million (\$376 million) and ¥38,902 million for the years ended March 31, 2014 and

2013, respectively. 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 sheet and corresponding fair value of those properties as of March 31, 2014 and 2013 are as follows:

Millions of yen			
2014			
Carrying value		Fair value	
As of March 31, 2013	Net change	As of March 31, 2014	As of March 31, 2014
¥ 161,991	¥ (2,157)	¥ 159,833	¥ 344,475

Millions of yen			
2013			
Carrying value		Fair value	
As of March 31, 2012	Net change	As of March 31, 2013	As of March 31, 2013
¥ 151,942	¥ 10,048	¥ 161,991	¥ 348,163

Millions of U.S. dollars			
2014			
Carrying value		Fair value	
As of March 31, 2013	Net change	As of March 31, 2014	As of March 31, 2014
\$ 1,588	\$ (21)	\$ 1,566	\$ 3,377

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 for the years ended March 31, 2014 and 2013 included increases mainly due to acquisitions of real estate properties in the amounts of ¥9,751 million (\$95 million) and ¥17,967 million and decreases mainly due to depreciation in the amounts of ¥8,501 million (\$83 million) and ¥7,336 million, respectively.

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 a valuation amount that reasonably reflects market value.

## Financial Statements

### Notes to Consolidated Financial Statements

#### 10 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, 2014 and 2013 ranged from 0.22% to 0.67% and from 0.24% to 0.66%, respectively.

Long-term debt at March 31, 2014 and 2013 is summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
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	\$ 1,078
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.593% to 2.49%, due from 2015 through 2041	349,975	339,973	3,431
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.37% to 4.90%, due in installments from 2015 through 2021	43,564	50,514	427
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.181% to 2.15%, due in installments from 2015 through 2034	250,200	214,700	2,452
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2015 through 2019	2,740	3,350	26
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2015 through 2034	8,572	8,819	84
Other	14,310	14,824	140
	<b>779,362</b>	<b>742,181</b>	<b>7,640</b>
Less current portion	<b>(46,572)</b>	<b>(39,918)</b>	<b>(456)</b>
	<b>¥ 732,789</b>	<b>¥ 702,263</b>	<b>\$ 7,184</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 46,572	\$ 456
2016	48,548	475
2017	64,365	631
2018	82,121	805
2019	74,170	727
2020 and thereafter	463,583	4,544
	¥ 779,362	\$ 7,640

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, 2014 and 2013 was as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,274
Credit utilized	—	—	—
Available credit	<b>¥ 130,000</b>	<b>¥ 130,000</b>	<b>\$ 1,274</b>

#### 11 Pledged Assets

Assets pledged at March 31, 2014 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Bank deposits included in cash	¥ 246	\$ 2
Investments in other securities	491	4
Land	159	1
Buildings and structures, net	16,098	157
	¥ 16,995	\$ 166

The indebtedness secured by such collateral at March 31, 2014 was as follows:

	Millions of yen	Millions of U.S. dollars
Notes and accounts payable	¥ 18	\$ 0
Current portion of long-term loans included in current portion of long-term debt	610	5
Long-term loans included in long-term debt	2,130	20
	¥ 2,758	\$ 27

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

## 12 Long-Term Payables

Long-term payables at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Variable interest portion, due in installments from 2015 through 2017	¥ 55,281	¥ 81,098	\$ 541
Fixed interest portion at 6.35% and 6.55%, due in installments from 2015 through 2052	149,869	163,142	1,469
Other	4,845	5,492	47
	<b>209,996</b>	249,733	<b>2,058</b>
Less current portion	<b>(38,104)</b>	(39,701)	<b>(373)</b>
	<b>¥ 171,891</b>	¥ 210,032	<b>\$ 1,685</b>

The average variable interest rates for the years ended March 31, 2014 and 2013 were 4.12% and 4.11%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 38,104	\$ 373
2016	33,646	329
2017	30,712	301
2018	1,510	14
2019	1,579	15
2020 and thereafter	104,443	1,023
	¥ 209,996	\$ 2,058

## 13 Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 38.01% for the years ended March 31, 2014 and 2013.

A reconciliation of the statutory tax rate and effective tax rates for the years ended March 31, 2014 and 2013 as a percentage of income before income taxes and minority interests was as follows:

	2014	2013
Statutory tax rates	38.01 %	38.01 %
Increase (decrease) in income taxes resulting from:		
Decrease in deferred tax assets due to change in tax rate	1.54	—
Reversal of valuation allowance	(0.01)	8.11
Per capita portion of inhabitants' taxes	0.63	0.70
Permanent non-deductible expenses	0.36	0.39
Other	(0.58)	0.17
Effective tax rates	<b>39.95 %</b>	47.38 %

## Financial Statements

### Notes to Consolidated Financial Statements

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonuses for employees	¥ 12,861	¥ 13,432	\$ 126
Accrued enterprise taxes included in accrued expenses	2,291	2,612	22
Accrued retirement benefits	—	109,031	—
Liability for retirement benefits	116,197	—	1,139
Unrealized gain on property, plant and equipment	8,895	8,602	87
Tax loss carryforwards	6,522	6,744	63
Other	35,460	34,842	347
Gross deferred tax assets	182,229	175,266	1,786
Valuation allowance	(18,327)	(18,245)	(179)
Total deferred tax assets	163,901	157,020	1,606
Deferred tax liabilities:			
Unrealized holding gain on securities	(1,727)	(1,323)	(16)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(12,678)	(12,785)	(124)
Gain on valuation of assets of consolidated subsidiaries	(882)	(1,320)	(8)
Other	(2,162)	(2,311)	(21)
Total deferred tax liabilities	(17,451)	(17,741)	(171)
Deferred tax assets, net	¥ 146,450	¥ 139,279	\$ 1,435

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.01% to 35.64% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was immaterial for the year ended March 31, 2014.

## 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.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation/amortization, accumulated impairment loss, and net book value of the leased assets as of March 31, 2014 and 2013, which would have been reflected in the accompanying consolidated balance sheet 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					
	2014			2013		
	Acquisition costs	Accumulated depreciation/amortization	Net book value	Acquisition costs	Accumulated depreciation/amortization	Net book value
Leased assets:						
Buildings and structures	¥ 2,403	¥ 614	¥ 1,789	¥ 2,403	¥ 527	¥ 1,876
Machinery, equipment and vehicles	186	100	86	186	86	100
Tools, furniture and fixtures	106	91	15	132	106	25
	¥ 2,696	¥ 805	¥ 1,891	¥ 2,722	¥ 719	¥ 2,002

Millions of U.S. dollars			
<b>2014</b>			
	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:			
Buildings and structures	\$ 23	\$ 6	\$ 17
Machinery, equipment and vehicles	1	0	0
Tools, furniture and fixtures	1	0	0
	<b>\$ 26</b>	<b>\$ 7</b>	<b>\$ 18</b>

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2014 and 2013 totaled ¥129 million (\$1 million) and ¥131 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. Reversal of accumulated impairment losses on the leased assets for the years ended March 31, 2014 and 2013 totaled nil and ¥81 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 113	\$ 1
2016 and thereafter	1,777	17
	<b>¥ 1,891</b>	<b>\$ 18</b>

Future minimum lease payments subsequent to March 31, 2014 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 1,337	\$ 13
2016 and thereafter	17,064	167
	<b>¥ 18,401</b>	<b>\$ 180</b>

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2014 and 2013 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						
<b>2014</b>						
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	¥ 1,687	¥ 1,147	¥ 540	¥ 1,987	¥ 1,251	¥ 735
Tools, furniture and fixtures	559	455	104	641	490	150
	<b>¥ 2,247</b>	<b>¥ 1,602</b>	<b>¥ 644</b>	<b>¥ 2,628</b>	<b>¥ 1,741</b>	<b>¥ 886</b>

Millions of U.S. dollars			
<b>2014</b>			
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	\$ 16	\$ 11	\$ 5
Tools, furniture and fixtures	5	4	1
	<b>\$ 22</b>	<b>\$ 15</b>	<b>\$ 6</b>

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### Notes to Consolidated Financial Statements

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2014 and 2013 were ¥230 million (\$2 million) and ¥414 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2014 and 2013 computed by the straight-line method over the respective lease terms amounted to ¥215 million (\$2 million) and ¥368 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2014 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 213	\$ 2
2016 and thereafter	468	4
	¥ 681	\$ 6

Future minimum lease receipts subsequent to March 31, 2014 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2015	¥ 305	\$ 2
2016 and thereafter	2,257	22
	¥ 2,563	\$ 25

## 15 Retirement Benefit Plans

The Company and its consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans. Certain consolidated subsidiaries have a funded defined contribution retirement plan administered by a government agency and/or a defined contribution pension plan.

In certain cases, special retirement benefits may be paid to employees.

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses by the Simplified Method.

*For the year ended March 31, 2014*

The changes in the retirement benefit obligations, except those for which the Simplified Method is applied, during the year ended March 31, 2014 are as follows:

	Millions of yen	Millions of U.S. dollars
	2014	2014
Retirement benefit obligations at beginning of year	¥ 322,081	\$ 3,157
Service cost	13,294	130
Interest cost	6,428	63
Actuarial gain	(413)	(4)
Retirement benefits paid	(13,269)	(130)
Other	60	0
Retirement benefit obligations at end of year	¥ 328,182	\$ 3,217

The changes in plan assets, except those for which the Simplified Method is applied, during the year ended March 31, 2014 are as follows:

	Millions of yen	Millions of U.S. dollars
	2014	2014
Plan assets at beginning of year	¥ 6,643	\$ 65
Expected return on plan assets	171	1
Actuarial gain	402	3
Contributions paid by the Company and consolidated subsidiaries	1,135	11
Retirement benefits paid	(456)	(4)
Plan assets at end of year	¥ 7,896	\$ 77

The changes in retirement benefit obligations for which the Simplified Method is applied during the year ended March 31, 2014 are as follows:

	Millions of yen	Millions of U.S. dollars
	<b>2014</b>	<b>2014</b>
Retirement benefit obligations at beginning of year	¥ 5,042	\$ 49
Retirement benefit expenses	900	8
Retirement benefits paid	(614)	(6)
Contributions paid by the Company and a consolidated subsidiary	(260)	(2)
Retirement benefit obligations at end of year	¥ 5,067	\$ 49

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method is applied:

	Millions of yen	Millions of U.S. dollars
	<b>2014</b>	<b>2014</b>
Funded retirement benefit obligations	¥ 11,872	\$ 116
Plan assets at fair value	(9,710)	(95)
	2,161	21
Unfunded retirement benefit obligations	323,192	3,168
Net liability for retirement benefits in the balance sheet	325,353	3,189
Liability for retirement benefits	326,823	3,204
Asset for retirement benefits	(1,469)	(14)
Net liability for retirement benefits in the balance sheet	¥ 325,353	\$ 3,189

The components of retirement benefit expenses for the year ended March 31, 2014 are as follows:

	Millions of yen	Millions of U.S. dollars
	<b>2014</b>	<b>2014</b>
Service cost	¥ 13,294	\$ 130
Interest cost	6,428	63
Expected return on plan assets	(171)	(1)
Amortization of unrecognized actuarial loss	4,732	46
Amortization of prior service cost	12	0
Amortization of net retirement benefits at transition	706	6
Net retirement benefit expenses calculated by the Simplified Method	900	8
Other	51	0
Retirement benefit expenses under defined benefit pension plans	¥ 25,955	\$ 254

Unrecognized prior service cost, unrecognized actuarial loss and unrecognized net retirement benefits at transition included in accumulated other comprehensive income (before tax effects) as of March 31, 2014 are as follows:

	Millions of yen	Millions of U.S. dollars
	<b>2014</b>	<b>2014</b>
Unrecognized prior service cost	¥ (5)	\$ (0)
Unrecognized actuarial loss	9,478	92
Unrecognized net retirement benefits at transition	1,412	13
	¥ 10,885	\$ 106

## Financial Statements

### Notes to Consolidated Financial Statements

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 is as follows:

	2014
Debt securities	47 %
Equity securities	35
Other	18
Total	100 %

The expected return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above retirement benefit plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	Principally 2.0 %
Expected rate of return on plan assets	Principally 3.0 %

Total contributions paid by the Company and its consolidated subsidiaries to the defined contribution pension plans for the year ended March 31, 2014 amounted to ¥279 million (\$2 million).

*For the year ended March 31, 2013*

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, 2013 are summarized as follows:

	Millions of yen
	2013
Retirement benefit obligation	¥ (328,725)
Plan assets at fair value	8,260
Unfunded retirement benefit obligation	(320,464)
Unrecognized net retirement benefit obligation at transition	2,118
Unrecognized actuarial loss	15,012
Unrecognized prior service cost	7
Net retirement benefit obligation	(303,326)
Prepaid pension cost	1,159
Accrued retirement benefits	¥ (304,486)

The components of retirement benefit expenses for the year ended March 31, 2013 are outlined as follows:

	Millions of yen
	2013
Service cost	¥ 14,705
Interest cost	6,603
Expected return on plan assets	(123)
Amortization of net retirement benefit obligation at transition	706
Amortization of actuarial loss	5,020
Amortization of prior service cost	(18,413)
Expense recorded at certain consolidated subsidiaries on change in measurement of retirement benefit obligation from the simplified method to the principle method	228
Retirement benefit expenses	8,727
Gain on transfer to defined contribution pension plan	—
Other	265
	¥ 8,992

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

	2013
Discount rate	Principally 2.0 %
Expected rate of return on plan assets	Principally 3.0 %

## 16 Contingent Liabilities

At March 31, 2014 the Company and its consolidated subsidiaries were contingently liable for guarantees of loans, accounts payable – trade and other obligations of companies other than consolidated subsidiaries in the aggregate amount of ¥11,303 million (\$110 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 Company Act 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 consolidated balance sheet and consolidated statement of changes in net assets. The Company's legal reserve amounted to ¥11,327 million (\$111 million) at March 31, 2014 and 2013.

### Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2014 and 2013 are summarized as follows:

	Number of shares			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	198,256,600	—	4,521,600	<b>193,735,000</b>
Treasury stock	4,615,100	3,071	4,521,600	<b>96,571</b>

	Number of shares			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	200,000,000	—	1,743,400	198,256,600
Treasury stock	6,358,499	1	1,743,400	4,615,100

The increases in treasury stock during the year ended March 31, 2014 consists of 206 shares of purchases of shares less than one trading unit and 2,865 shares attributable to the Company owned by a new affiliate applied by the equity method.

The decreases in common stock and treasury stock during the year ended March 31, 2014 were due to cancellation

of treasury stock.

The increases in treasury stock during the year ended March 31, 2013 were due to the purchases of shares of less than one trading unit. The decreases in common stock and treasury stock during the year ended March 31, 2013 were due to cancellation of treasury stock.

## 18 Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥9,412 million (\$92 million) and ¥8,168 million for the years ended March 31, 2014 and 2013, respectively.

## Financial Statements

### Notes to Consolidated Financial Statements

#### 19 Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2014 and 2013.

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 1,157	¥ 2,594	\$ 11
Before tax effect	1,157	2,594	11
Tax effect	(403)	(924)	(3)
Total	754	1,669	7
Net unrealized deferred gain on hedging instruments:			
Amount arising during the year	139	1,353	1
Before tax effect	139	1,353	1
Tax effect	(52)	(524)	(0)
Total	86	829	0
The Company's share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	41	109	0
Other comprehensive income, net	¥ 881	¥ 2,608	\$ 8

#### 20 Amounts per Share

Amounts per share at March 31, 2014 and 2013 and for the years then ended were as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets	¥ 4,048.31	¥ 3,850.82	\$ 39
Net income	338.98	310.87	3
Cash dividends	115.00	110.00	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, 2014 and 2013 since the Company had no potentially dilutive stock at March 31, 2014 and 2013.

As described in Note 3, effective the year ended March

31, 2014, revised accounting standards for retirement benefits were adopted and the effect of the adoption of these revised accounting standards was included in accumulated other comprehensive income as retirement benefits liability adjustments as of March 31, 2014 in accordance with transitional accounting treatments provided in the revised accounting standards. As a result, net assets per share decreased by ¥35.67 (\$0.35) as of March 31, 2014.

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.

#### 21 Financial Instruments

##### 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 which cannot be fully

provided by cash flows. 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. Short-term investments and 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.

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 six years from March 31, 2014. 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 thirty seven years from March 31, 2014. Some of these payables have variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into currency swap and interest-rate swap contracts to reduce the risk arising from the fluctuation in exchange rates and interest rates on financial liabilities and 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 (20).

## (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 risks (the risks arising from fluctuations in foreign currency exchange rates, interest rates and others)

The Company utilizes currency swap and interest-rate swap contracts to reduce the risk arising from the fluctuation in exchange rates and interest rates on financial liabilities. Finance division of the Company executes and monitors them in accordance with internal policy.

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. The basic policy is approved at a meeting once a half year in accordance with internal policy. In accordance with the approval, finance division enters into such 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, these risks are also periodically monitored by the internal audit division of the Company.

For short-term investments and investments in 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.

### (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.

## Financial Statements

### Notes to Consolidated Financial Statements

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2014 and 2013 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 21).

	Millions of yen		
	<b>2014</b>		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash	¥ 55,203	¥ 55,203	¥ —
Notes and accounts receivable	20,794	20,794	—
Accrued fares (component of notes and accounts receivables)	36,721	36,721	—
Other accounts receivable (component of notes and accounts receivables)	57,365	57,365	—
Short-term investments and investments in securities:			
Investments in subsidiaries and affiliates	2,047	1,814	(232)
Other securities	30,134	30,134	—
<b>Liabilities:</b>			
Short-term loans	(25,754)	(25,754)	—
Notes and accounts payable	(53,542)	(53,542)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	(118,198)	(118,198)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	(29,419)	(29,419)	—
Deposits (component of deposits and advances received)	(71,693)	(71,693)	—
Bonds (component of long-term debt, including current portion)	(459,975)	(506,383)	(46,407)
Long-term loans (component of long-term debt, including current portion)	(310,814)	(322,114)	(11,300)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	(209,868)	(319,172)	(109,304)
Other long-term payables (component of long-term payables, including current portion)	(127)	(133)	(5)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	1,126	1,126	—

Millions of yen

**2013**

	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash	¥ 48,636	¥ 48,636	¥ —
Notes and accounts receivable	20,656	20,656	—
Accrued fares (component of notes and accounts receivables)	28,657	28,657	—
Other accounts receivable (component of notes and accounts receivables)	46,431	46,431	—
Short-term investments and investments in securities:			
Other securities	11,081	11,081	—
<b>Liabilities:</b>			
Short-term loans	(24,124)	(24,124)	—
Notes and accounts payable	(50,919)	(50,919)	—
Other accounts payable			
(component of notes and accounts payable and accrued expenses)	(97,368)	(97,368)	—
Accrued income taxes			
(component of accrued income taxes and accrued expenses)	(29,921)	(29,921)	—
Deposits (component of deposits and advances received)	(64,747)	(64,747)	—
Bonds (component of long-term debt, including current portion)	(449,973)	(501,424)	(51,450)
Long-term loans (component of long-term debt, including current portion)	(283,388)	(296,830)	(13,442)
Long-term payables for purchase of railway facilities			
(component of long-term payables, including current portion)	(249,574)	(373,123)	(123,548)
Other long-term payables			
(component of long-term payables, including current portion)	(159)	(167)	(8)
Derivative transactions qualifying for hedge accounting			
(component of deposits and advances received)	987	987	—

## Financial Statements

## Notes to Consolidated Financial Statements

Millions of U.S. dollars

	2014		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash	\$ 541	\$ 541	\$ —
Notes and accounts receivable	203	203	—
Accrued fares (component of notes and accounts receivables)	360	360	—
Other accounts receivable (component of notes and accounts receivables)	562	562	—
Short-term investments and investments in securities:			
Investments in subsidiaries and affiliates	20	17	(2)
Other securities	295	295	—
<b>Liabilities:</b>			
Short-term loans	(252)	(252)	—
Notes and accounts payable	(524)	(524)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	(1,158)	(1,158)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	(288)	(288)	—
Deposits (component of deposits and advances received)	(702)	(702)	—
Bonds (component of long-term debt, including current portion)	(4,509)	(4,964)	(454)
Long-term loans (component of long-term debt, including current portion)	(3,047)	(3,157)	(110)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	(2,057)	(3,129)	(1,071)
Other long-term payables (component of long-term payables, including current portion)	(1)	(1)	(0)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	11	11	—

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

*Cash, notes and accounts receivable, accrued fares and other accounts receivable*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*Short-term investments and investments in securities*

Since short-term investments are settled in a short period of time, their carrying value approximates fair value. 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, notes and accounts payable, deposits, accrued income taxes and other accounts 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 loans (including current portion) and other long-term payables (including current portion)*

The fair value of long-term loans and long-term payables is determined based on the present value of the total amounts of principal and interest payments discounted at an interest rate to be applied if similar new loans were entered into.

The fair value of long-term loans hedged by currency swap or interest-rate swap contracts is determined based on the present value of the total amounts of principal and interest discounted at interest rates applied to the swaps on the assumption that the sales had originally applied to the long-term loans.

*Long-term payables for purchase of railway facilities*

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.

*Derivative transactions*

Refer to Note 22.

2. Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2013	2014
Investments in securities			
Unlisted stocks	¥ 53,167	¥ 51,849	\$ 521
Other	10	9	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 as amounts presented in the table of "Estimated Fair Value of Financial Instruments" in this note.

3. The redemption schedule for cash, receivables and marketable securities with maturities at March 31, 2014 and 2013 is as follows:

	Millions of yen		
	2014		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash	¥ 36,280	¥ —	¥ —
Notes and accounts receivable:	20,691	103	—
Accrued fares (component of notes and accounts receivables)	36,721	—	—
Other accounts receivable (component of notes and accounts receivables)	57,301	63	—
Short-term investments and investments in securities:			
Other marketable securities with maturities (certificates of deposits)	18,000	—	—
Other marketable securities with maturities (national government bonds)	—	—	266
Other marketable securities with maturities (corporate bonds)	6	18	—
<b>Total</b>	<b>¥ 169,002</b>	<b>¥ 185</b>	<b>¥ 266</b>

	Millions of yen		
	2013		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash	¥ 32,241	¥ —	¥ —
Notes and accounts receivable:	20,493	163	—
Accrued fares (component of notes and accounts receivables)	28,657	—	—
Other accounts receivable (component of notes and accounts receivables)	46,297	134	—
Investments in securities:			
Other marketable securities with maturities (national government bonds)	37	—	175
Other marketable securities with maturities (corporate bonds)	6	25	—
<b>Total</b>	<b>¥ 127,732</b>	<b>¥ 323</b>	<b>¥ 175</b>

	Millions of U.S. dollars		
	2014		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash	\$ 355	\$ —	\$ —
Notes and accounts receivable:	202	1	—
Accrued fares (component of notes and accounts receivables)	360	—	—
Other accounts receivable (component of notes and accounts receivables)	561	0	—
Investments in securities:			
Other marketable securities with maturities (negotiable certificates of deposit)	176	—	—
Other marketable securities with maturities (national government bonds)	—	—	2
Other marketable securities with maturities (corporate bonds)	0	0	—
<b>Total</b>	<b>\$ 1,656</b>	<b>\$ 1</b>	<b>\$ 2</b>

4. The redemption schedules for long-term debt and long-term payables are disclosed in Note 10 "Short-Term Loans and Long-Term Debt" and Note 12 "Long-Term Payables" in the Notes to Consolidated Financial Statements.

## Financial Statements

## Notes to Consolidated Financial Statements

## 22 Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2014 and 2013.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2014 and 2013 were as follows:

## Currency-related transactions

			Millions of yen		
			<b>2014</b>		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forecasted transaction)	¥ 8,751	¥ —	¥ 833 (*1)
	U.S. dollars		4,073	—	250 (*1)
Other	2,124		—	42 (*1)	
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable	999	—	(*2)
	U.S. dollars		454	—	(*2)
Other	258		—	(*2)	
Allocation method of forward foreign exchange contracts	Currency swaps included in interest-rate conversion				
	Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans	3,100	3,100	(*2)
			<b>¥ 19,762</b>	<b>¥ 3,100</b>	<b>¥ 1,126</b>
			Millions of yen		
			<b>2013</b>		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forecasted transaction)	¥ 4,905	¥ —	¥ 664 (*1)
	U.S. dollars		2,702	—	232 (*1)
Other	921		—	90 (*1)	
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable	437	—	(*2)
	U.S. dollars		287	—	(*2)
Other	98		—	(*2)	
Allocation method of forward foreign exchange contracts	Currency swaps included in interest-rate conversion				
	Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans	3,100	3,100	(*2)
			<b>¥ 12,452</b>	<b>¥ 3,100</b>	<b>¥ 987</b>

Millions of U.S. dollars

			2014			
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value	
Deferral hedge accounting	Forward foreign exchange contracts Purchase					
			Euro	\$ 85	\$ —	\$ 8 (*1)
			U.S. dollars	39	—	2 (*1)
			Other	20	—	0 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Purchase	Other accounts payable				
			Euro	9	—	(*2)
			U.S. dollars	4	—	(*2)
			Other	2	—	(*2)
Allocation method of forward foreign exchange contracts	Currency swaps included in interest-rate conversion Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans	30	30	(*2)	
			<b>\$ 193</b>	<b>\$ 30</b>	<b>\$ 11</b>	

(\*1) The fair value is primarily based on the prices provided by financial institutions.

(\*2) Because forward foreign exchange contracts are accounted for as if the exchange rates applied to the forward foreign exchange contracts had originally applied to the other accounts payable or long-term loans, their fair values were included in other accounts payable or long-term loans.

**Interest-rate related transactions**

Millions of yen

			2014		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans	¥ 7,000	¥ 7,000	(*)

Millions of yen

			2013		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans	¥ 7,000	¥ 7,000	(*)

Millions of U.S. dollars

			2014		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans	\$ 68	\$ 68	(*)

(\*) Because interest rate swap contracts are accounted for as if the interest rates applied to the swaps had originally applied to the long-term loans, their fair values were included in long-term loans.

## Financial Statements

### Notes to Consolidated Financial Statements

#### 23 Segment Information

The Company's reportable segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Company primarily engages in businesses related to transportation, sales of goods and food services and real estate.

The Company and its consolidated subsidiaries are composed of three main business segments and those reportable segments are "Transportation," "Sales of goods and food services" and "Real estate business." "Transportation" involves of railway, bus, and ferry services. "Sales of goods

and food services" involves department store, restaurant, retail and wholesale businesses. "Real estate business" involves sales or leasing of real estate and management of shopping malls. "Other businesses" involves business segments not included in the reportable segments, such as hotel services, travel agent services and construction.

Accounting policies used in each reportable segment are substantially the same as those described in Note 1 "Summary of Significant Accounting Policies." Intersegment transactions are those conducted among the Company and its consolidated subsidiaries and are mainly recorded at the market prices.

Reportable segment information for the years ended March 31, 2014 and 2013 is outlined as follows:

	Reportable segments						2014
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and corporation	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 851,385	¥ 240,179	¥ 102,261	¥ 137,193	¥ 1,331,019	¥ —	¥ 1,331,019
Intersegment operating revenues or transfers	17,248	54,311	18,716	189,060	279,337	(279,337)	—
Total	¥ 868,634	¥ 294,490	¥ 120,978	¥ 326,253	¥ 1,610,356	¥ (279,337)	¥ 1,331,019
Segment income (loss)	¥ 91,013	¥ 4,429	¥ 27,793	¥ 11,860	¥ 135,097	¥ (504)	¥ 134,593
Segment assets	¥ 1,949,883	¥ 111,280	¥ 399,263	¥ 295,959	¥ 2,756,387	¥ (68,496)	¥ 2,687,890
Other items:							
Depreciation and amortization	¥ 128,200	¥ 5,084	¥ 17,414	¥ 3,203	¥ 153,903	¥ —	¥ 153,903
Investment in affiliates accounted for by the equity method	20,509	—	—	21,839	42,349	—	42,349
Increase in tangible and intangible fixed assets	163,768	5,210	14,610	8,341	191,932	—	191,932

Millions of yen

Millions of yen

2013

	Reportable segments				Subtotal	Elimination and corporation	Consolidated
	Transportation	Sales of goods and food services	Real estate business	Other businesses			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 844,915	¥ 234,691	¥ 90,900	¥ 128,406	¥ 1,298,913	¥ —	¥ 1,298,913
Intersegment operating revenues or transfers	17,325	50,780	20,281	182,902	271,290	(271,290)	—
Total	¥ 862,241	¥ 285,472	¥ 111,182	¥ 311,308	¥ 1,570,204	¥ (271,290)	¥ 1,298,913
Segment income (loss)	¥ 90,105	¥ (498)	¥ 28,004	¥ 12,351	¥ 129,962	¥ (465)	¥ 129,497
Segment assets	¥ 1,916,315	¥ 106,625	¥ 395,131	¥ 290,031	¥ 2,708,103	¥ (94,360)	¥ 2,613,743
Other items:							
Depreciation and amortization	¥ 133,455	¥ 5,270	¥ 18,321	¥ 3,804	¥ 160,852	¥ —	¥ 160,852
Loss on impairment of fixed assets	177	18,935	239	354	19,706	—	19,706
Investment in affiliates accounted for by the equity method	19,514	—	—	19,303	38,817	—	38,817
Increase in tangible and intangible fixed assets	138,410	6,979	21,155	5,843	172,388	—	172,388

Millions of U.S. dollars

2014

	Reportable segments				Subtotal	Elimination and corporation	Consolidated
	Transportation	Sales of goods and food services	Real estate business	Other businesses			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	\$ 8,346	\$ 2,354	\$ 1,002	\$ 1,345	\$ 13,049	\$ —	\$ 13,049
Intersegment operating revenues or transfers	169	532	183	1,853	2,738	(2,738)	—
Total	\$ 8,516	\$ 2,887	\$ 1,186	\$ 3,198	\$ 15,787	\$ (2,738)	\$ 13,049
Segment income (loss)	\$ 892	\$ 43	\$ 272	\$ 116	\$ 1,324	\$ (4)	\$ 1,319
Segment assets	\$ 19,116	\$ 1,090	\$ 3,914	\$ 2,901	\$ 27,023	\$ (671)	\$ 26,351
Other items:							
Depreciation and amortization	\$ 1,256	\$ 49	\$ 170	\$ 31	\$ 1,508	\$ —	\$ 1,508
Investment in affiliates accounted for by the equity method	201	—	—	214	415	—	415
Increase in tangible and intangible fixed assets	1,605	51	143	81	1,881	—	1,881

## Financial Statements

### Notes to Consolidated Financial Statements

Segment income (loss) represents operating income in the consolidated statement of income.

Information on each product and service was omitted for the years ended March 31, 2014 and 2013 because it was same as that of the reportable segment information.

Geographical information and information on sales to major customers was omitted for the years ended March 31, 2014 and 2013 because there were no items that meet their disclosure criteria.

Information on loss on impairment of fixed assets per each reportable segment was omitted because the amounts were immaterial for the year ended March 31, 2014 and because it was same as that of the reportable segment information for the year ended March 31, 2013.

Information on amortization of goodwill and negative goodwill, the balances and gain on recognition of negative goodwill was omitted as of and for the years ended March 31, 2014 and 2013 because the amounts were immaterial.

## 24 Subsequent Event

### (1) Business combinations by acquisition of shares

On April 24, 2014, DAITETSU KOGYO CO., LTD., an affiliate of the Company, that mainly engages in contract construction of buildings or track and measurement, design and management, acquired its own shares as treasury stock. As a result of the acquisition of treasury stock, the ratio of voting rights held by the Company changed from 37.90% to 51.63%, and DAITETSU KOGYO CO., LTD. became a consolidated subsidiary of the Company. This business combination was made in order to improve the safety and quality level of the Company's construction work.

At present, the acquisition cost and its details, the details on acquired assets and liabilities and their amounts as of the business combination date and goodwill incurred as a result of the business combination have not been determined.

In addition, JR WEST BUILT CO., LTD., a subsidiary of DAITETSU KOGYO CO., LTD., also became a consolidated subsidiary of the Company due to a business combination. JR WEST BUILT CO., LTD. mainly engages in the design, execution, management and consulting for construction or engineering work.

### (2) Issuance of bonds

Based on a resolution approved at a meeting of the Board of Directors held on March 13, 2014, the Company determined to issue bonds on June 6, 2014. Details of the bond issuance are as follows:

Description	The 36th Series of West Japan Railway Bonds
Issuance date	June 20, 2014
Total issuance amount	¥10,000 million (\$98 million)
Issue price	¥100 (\$0.98) with a face value of ¥100 (\$0.98)
Annual interest rate	1.554%
Type	Unsecured
Maturity	June 20, 2034
Usage of funds	Repayment of long-term payables

### (3) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014, was to be approved at a meeting of the shareholders of the Company to be held on June 24, 2014:

	Millions of yen	Millions of U.S. dollars
Cash dividends		
(¥60 = U.S.\$0.58 per share)	¥ 11,624	\$ 113

# Report of Independent Auditors



Ernst & Young ShinNihon LLC

## Independent Auditor's Report

The Board of Directors  
West Japan Railway Company

We have audited the accompanying consolidated financial statements of West Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of West Japan Railway Company and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

June 23, 2014  
Osaka, Japan

*Ernst & Young ShinNihon LLC*

# Analysis of JR-West Operations

## Non-Consolidated 20-Year Financial Summary

Years ended March 31

	1995* <sup>2</sup>	1996	1997	1998	1999* <sup>3</sup>	2000	2001	2002	2003
<b>FOR THE YEAR:</b>									
Operating revenues:	¥874.1	¥936.2	¥956.0	¥946.0	¥909.4	¥885.1	¥881.4	¥869.8	¥849.0
Transportation:	767.5	823.9	839.1	830.0	795.5	773.9	773.1	770.2	752.3
Sanyo Shinkansen	307.8	332.2	350.3	346.0	326.7	313.0	313.0	314.3	306.0
Kansai Urban Area (Kyoto–Osaka–Kobe area)	285.3	314.8	314.4	315.3	309.8	306.9	309.3	308.9	303.3
Other lines	173.6	176.1	173.7	167.9	158.4	153.5	150.1	146.4	142.5
Operating expenses:	773.0	795.9	825.9	831.1	796.7	786.0	784.4	770.3	745.7
Personnel	334.4	341.8	350.9	358.5	357.8	350.1	345.6	330.5	301.6
Non-personnel:	295.5	305.7	326.5	301.2	277.7	276.5	275.0	281.2	288.2
Energy	41.4	43.3	42.4	43.8	40.5	39.3	38.2	39.2	38.4
Maintenance	124.8	128.4	146.7	120.9	108.0	112.3	114.3	116.8	122.6
Miscellaneous	129.2	134.0	137.3	136.5	129.2	124.9	122.4	125.1	127.1
Taxes	20.6	29.1	27.1	38.0	31.3	31.0	30.3	30.0	29.3
Rental payments, etc.	7.9	9.0	10.0	23.0	22.8	23.8	31.5	31.3	31.0
Depreciation expenses	114.4	110.0	111.2	110.2	107.0	104.4	101.8	97.1	95.4
Operating income	101.1	140.3	130.0	114.8	112.7	99.0	97.0	99.5	103.2
Recurring profit	20.4	55.6	56.0	48.3	50.5	42.3	43.4	54.0	61.3
Net income (loss)	7.5	25.8	33.5	23.4	(5.6)	25.5	25.9	32.5	33.4
<b>AT YEAR-END:</b>									
Total assets	¥2,355.1	¥2,297.9	¥2,333.4	¥2,277.2	¥2,242.0	¥2,232.6	¥2,247.8	¥2,135.7	¥2,116.8
Total net assets	277.5	293.2	316.6	327.8	312.0	346.6	403.3	388.6	410.7

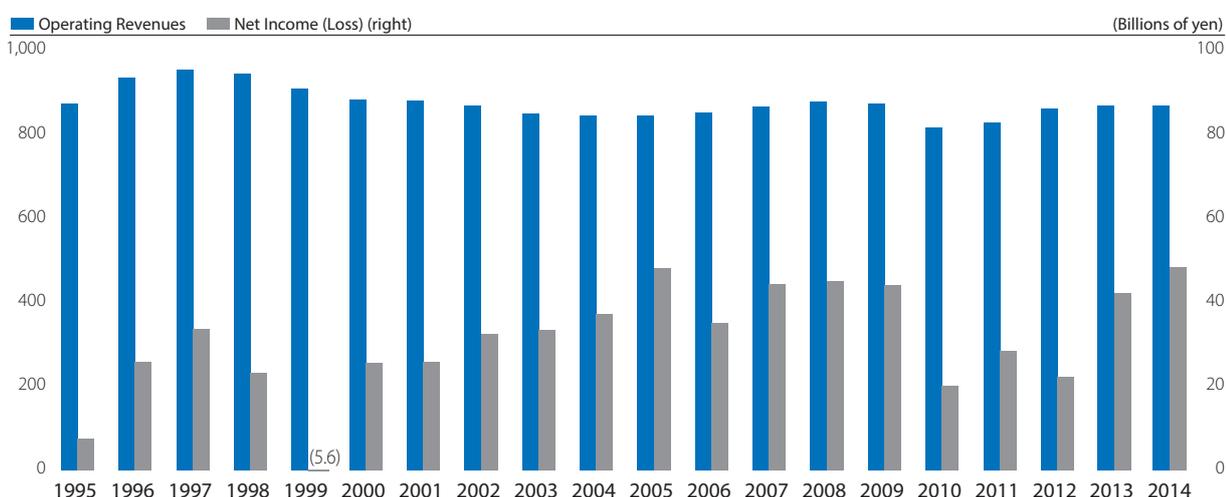
\*1 Yen figures have been converted into U.S. dollars at the rate of ¥102=U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

\*2 The Hanshin-Awaji Earthquake occurred in January 1995.

\*3 In accordance with the Law on the Disposition of the Liability owned by the Japan National Railways Settlement Corporation, the Company paid ¥44.5 billion to the Japan Railways Group Mutual Aid Association in March 1999.

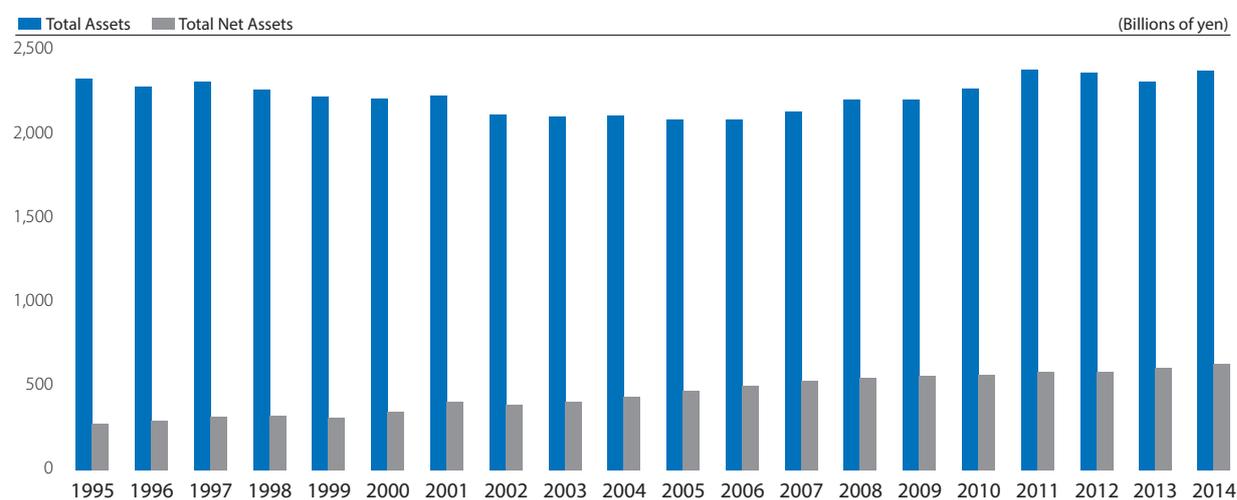
\*4 The Company has revised the allocation method for revenue from non-commuter passes on conventional lines (Kansai Urban Area and Other Lines) from the fiscal year ended March 2014. Figures in the above chart for the fiscal year ended March 2013 have been retroactively calculated based on the new allocation method. Under the previous allocation method, transportation revenues for Kansai Urban Area and Other Lines in that fiscal year totaled ¥291.4 billion and ¥120.6 billion, respectively.

### OPERATING REVENUES AND NET INCOME (LOSS)



2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*4	Millions of	
										Billions of yen	U.S. dollars*1
										2014	2014
¥845.8	¥846.4	¥851.2	¥865.8	¥879.4	¥875.0	¥816.7	¥828.6	¥862.1	¥868.5	<b>¥873.6</b>	<b>\$8,565</b>
750.8	750.9	756.5	765.8	781.7	773.7	720.0	728.0	758.7	769.1	<b>780.6</b>	<b>7,653</b>
308.1	313.4	323.8	328.6	343.5	339.1	312.4	323.9	351.5	357.0	<b>364.4</b>	<b>3,573</b>
302.0	300.4	297.5	302.4	303.3	301.5	286.1	284.4	287.3	288.9	<b>292.1</b>	<b>2,864</b>
140.0	136.5	134.7	134.3	134.4	132.5	121.4	119.6	119.8	123.0	<b>123.9</b>	<b>1,215</b>
740.4	736.4	742.3	756.8	769.6	772.9	758.2	752.8	772.8	766.1	<b>771.8</b>	<b>7,567</b>
294.5	286.8	276.1	272.5	269.9	268.6	265.2	235.3	237.9	233.3	<b>235.4</b>	<b>2,308</b>
291.0	300.5	320.0	337.9	338.8	333.9	318.6	333.4	339.5	342.7	<b>351.6</b>	<b>3,447</b>
36.6	36.9	34.8	34.3	34.4	38.2	33.5	33.7	36.2	37.1	<b>43.1</b>	<b>422</b>
121.9	127.1	140.7	148.9	148.6	135.8	128.1	135.8	133.3	136.5	<b>139.0</b>	<b>1,362</b>
132.4	136.4	144.4	154.5	155.8	159.8	156.9	163.8	169.9	169.1	<b>169.5</b>	<b>1,662</b>
28.2	29.7	28.7	28.1	28.6	29.1	29.3	29.8	30.9	31.7	<b>31.6</b>	<b>310</b>
30.8	24.6	24.7	24.6	24.6	25.3	25.0	25.1	23.6	23.4	<b>23.6</b>	<b>231</b>
95.7	94.5	92.5	93.5	107.5	115.9	119.9	129.1	140.7	134.7	<b>129.3</b>	<b>1,268</b>
105.4	110.0	108.9	108.9	109.8	102.0	58.5	75.8	89.2	102.3	<b>¥101.7</b>	<b>\$997</b>
65.0	74.3	75.9	77.6	79.9	73.4	29.8	48.5	62.8	77.5	<b>79.9</b>	<b>784</b>
37.1	48.0	35.1	44.6	45.1	44.3	20.5	28.5	22.1	41.9	<b>48.6</b>	<b>477</b>
¥2,126.8	¥2,098.0	¥2,102.1	¥2,151.8	¥2,222.9	¥2,215.1	¥2,286.9	¥2,405.7	¥2,381.7	¥2,333.3	<b>¥2,392.6</b>	<b>\$23,457</b>
439.3	474.3	502.2	533.3	552.4	560.7	568.1	581.3	588.3	611.6	<b>639.4</b>	<b>6,269</b>

## TOTAL ASSETS AND TOTAL NET ASSETS



## Analysis of JR-West Operations

### Capital Expenditures and Cash Flows

Years ended March 31

#### Capital Expenditures

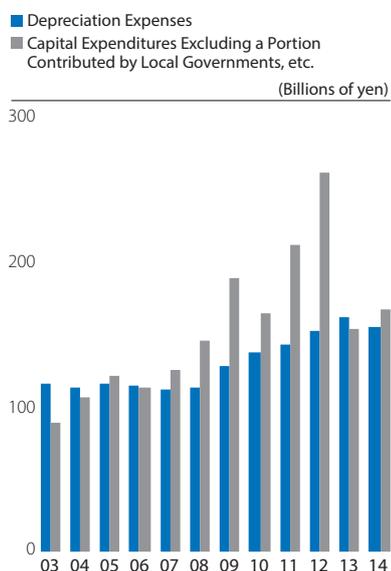
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
	Billions of yen											Millions of U.S. dollars* <sup>1</sup>	
<b>CONSOLIDATED BASIS:</b>													
Depreciation expenses	¥113.0	¥115.3	¥113.6	¥111.9	¥112.8	¥128.0	¥137.0	¥141.9	¥150.8	¥169.3	¥160.8	<b>¥153.9</b>	<b>\$1,508</b>
Capital expenditures excluding a portion contributed by local governments, etc.	105.4	120.8	113.1	125.3	144.9	187.9	163.9	210.1	260.0	195.4	152.9	<b>166.7</b>	<b>1,634</b>
<b>NON-CONSOLIDATED BASIS:</b>													
Depreciation expenses	¥ 95.4	¥ 95.7	¥ 94.5	¥ 92.5	¥ 93.5	¥107.5	¥115.9	¥119.9	¥129.1	¥140.7	¥134.7	<b>¥129.3</b>	<b>\$1,268</b>
Capital expenditures excluding a portion contributed by local governments, etc.	85.7	102.3	92.8	106.3	117.2	159.6	128.4	165.5	208.5	150.8	124.8	<b>144.5</b>	<b>1,417</b>

#### Cash Flows (Consolidated Basis)

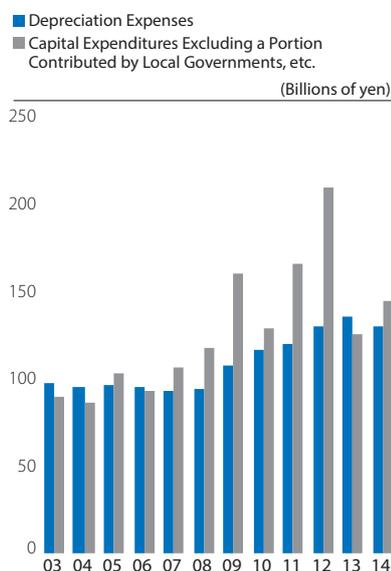
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
	Billions of yen											Millions of U.S. dollars* <sup>1</sup>	
Net cash provided by operating activities	¥130.2	¥140.2	¥142.9	¥164.0	¥188.6	¥222.1	¥178.8	¥161.3	¥223.2	¥206.2	¥238.0	<b>¥237.7</b>	<b>\$2,330</b>
Net cash (used in) provided by investing activities	(63.3)	(91.6)	(84.9)	(101.7)	(131.7)	(179.2)	(172.6)	(208.7)	(246.2)	(199.1)	(154.7)	<b>(165.3)</b>	<b>(1,621)</b>
Free cash flows	66.8	48.5	58.0	62.3	56.8	42.9	6.1	(47.4)	(23.0)	7.0	83.2	<b>72.3</b>	<b>709</b>
Net cash (used in) provided by financing activities	(71.5)	(67.9)	(66.4)	(69.3)	(54.6)	(55.8)	(10.1)	54.6	51.4	(36.8)	(85.2)	<b>(47.8)</b>	<b>(468)</b>

\*1 Yen figures have been converted into U.S. dollars at the rate of ¥102=U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

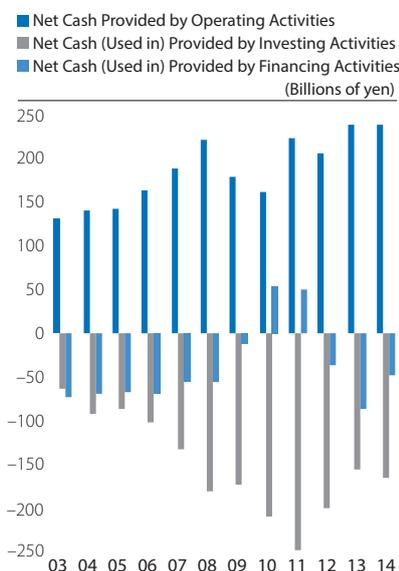
#### DEPRECIATION AND CAPITAL EXPENDITURES (CONSOLIDATED BASIS)



#### DEPRECIATION AND CAPITAL EXPENDITURES (NON-CONSOLIDATED BASIS)



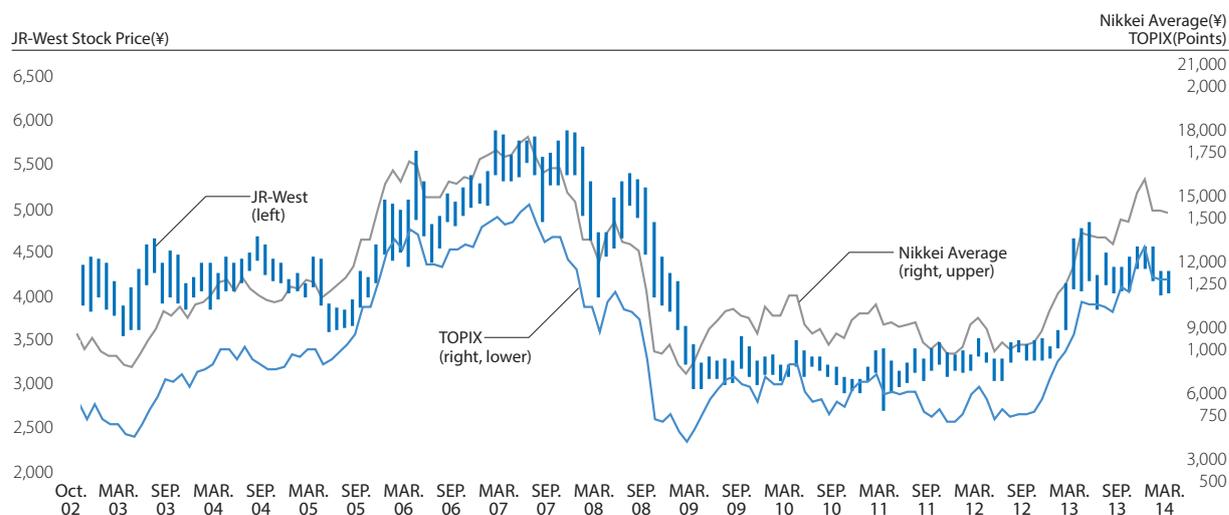
#### CASH FLOWS (CONSOLIDATED BASIS)



# Investor Information

As of March 31, 2014

## Stock Price and Trading Volume



	Fiscal 2003		Fiscal 2004		Fiscal 2005		Fiscal 2006		Fiscal 2007		Fiscal 2008		
	2H	1H	2H										
JR-West High (¥)	4,450	4,670	4,480	4,680	4,460	4,420	5,110	5,650	5,880	5,830	5,900		
Low (¥)	3,550	3,620	3,850	4,060	4,000	3,600	3,980	4,380	4,910	4,840	4,000		
Average Daily Trading Volume (Shares)	216,439	313,644	504,571	650,051	531,389	840,019	802,132	616,666	688,486	648,094	861,620		
Nikkei Average (¥)	7,972.71	10,219.05	11,715.39	10,823.57	11,668.95	13,574.30	17,059.66	16,127.58	17,287.65	16,785.69	12,525.54		
TOPIX (Points)	788.00	1,018.80	1,179.23	1,102.11	1,182.18	1,412.28	1,728.16	1,610.73	1,713.61	1,616.62	1,212.96		
	Fiscal 2009		Fiscal 2010		Fiscal 2011		Fiscal 2012		Fiscal 2013		Fiscal 2014		
	1H	2H											
JR-West High (¥)	5,400	4,840	3,540	3,430	3,495	3,420	3,420	3,530	3,510	4,660	4,835	4,575	
Low (¥)	4,460	2,949	2,952	2,993	2,986	2,700	2,905	3,080	3,035	3,260	3,840	4,007	
Average Daily Trading Volume (Shares)	695,220	912,513	782,785	660,959	713,580	945,908	814,979	812,162	662,210	789,675	861,142	803,102	
Nikkei Average (¥)	11,259.86	8,109.53	10,133.23	11,089.94	9,369.35	9,755.10	8,700.29	10,083.56	8,870.16	12,397.91	14,455.80	14,827.83	
TOPIX (Points)	1,087.41	773.66	909.84	978.81	829.51	869.38	761.17	854.35	737.42	1,034.71	1,194.10	1,202.89	

• Based on prices on the First Section of the Tokyo Stock Exchange.

• The closing prices for the Nikkei Index and TOPIX are recorded at the end of the period (month).

• The Company conducted a stock split on July 1, 2011, at a ratio of 100 ordinary shares for each ordinary share. Stock prices displayed above have been adjusted to reflect the stock split.

**Number of Shareholders: 160,149**

### Major Shareholders

	Number of Shares Held (Shares)	Equity Ownership (%)
The Master Trust Bank of Japan, Ltd. (Trust Unit)	7,602,500	3.92
Mizuho Bank, Ltd.	6,450,000	3.33
Sumitomo Mitsui Banking Corporation	6,400,000	3.30
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,300,000	3.25
Japan Trustee Services Bank, Ltd. (Trust Unit)	5,553,000	2.87
JR-West Employee Stock-Sharing Plan	4,520,700	2.33
Nippon Life Insurance Company	4,000,000	2.06
Sumitomo Mitsui Trust Bank, Limited	3,200,100	1.65
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	2,360,264	1.22
STATE STREET BANK WEST CLIENT - TREATY	2,255,058	1.16
<b>Total</b>	<b>48,641,622</b>	<b>25.11</b>

Note: For the purpose of computing the shareholding ratios, 606 shares of treasury stock are excluded from the total number of issued shares of the Company.

# Consolidated Subsidiaries

As of March 31, 2014

SEGMENT	NAME	PAID-IN CAPITAL (Millions of yen)	BUSINESS	EQUITY OWNERSHIP(%)
Transportation Operations	Chugoku JR Bus Company	2,840	Bus Services	100.0
	West Japan JR Bus Company	2,110	Bus Services	100.0
	JR West Miyajima Ferry Co., Ltd.	1,100	Ferry Services	100.0
	Sagano Scenic Railway	200	Railway Services	100.0
Retail Business	West Japan Railway Isetan Limited	12,000	Department Store	60.0
	West Japan Railway Daily Service Net Company	2,300	Sales of Goods and Food Services	100.0
	West Japan Railway Food Service Net Company	899	Sales of Goods and Food Services	100.0
	Japan Railway Service Net Hiroshima Company	300	Sales of Goods and Food Services	100.0
	Japan Railway Service Net Okayama Company	230	Sales of Goods and Food Services	100.0
	Japan Railway West Trading Company	200	Wholesale	100.0
	Japan Railway Service Net Kanazawa Company	200	Sales of Goods and Food Services	100.0
	Japan Railway Service Net Fukuoka Company	200	Sales of Goods and Food Services	100.0
	West Japan Railway Sanin Development Company	200	Other Retail Businesses	100.0
	West Japan Railway Fashion Goods Co., Ltd.	100	Sales of Goods and Food Services	100.0
Real Estate Business	Kyoto Station Building Development Co., Ltd.	6,000	Real Estate Sales and Leasing	61.9
	Osaka Terminal Building Company	5,500	Real Estate Sales and Leasing	74.4
	Tennoji Shopping Center Development Co., Ltd.	1,800	Shopping Centers	100.0
	JR West Japan Shopping Center Development Company	1,200	Shopping Centers	100.0
	Kyoto Station Center Co., Ltd.	1,000	Shopping Centers	59.1
	JR-West Japan Real Estate & Development Company	620	Real Estate Sales and Leasing	100.0
	Toyama Terminal Building Company	550	Shopping Centers	63.6
	West JR Create Company	490	Shopping Centers	100.0
	Sanyo SC Development Co., Ltd.	300	Shopping Centers	100.0
	Kanazawa Terminal Development Co., Ltd.	300	Shopping Centers	80.0
	KOBE SC DEVELOPMENT COMPANY	98	Shopping Centers	94.0
	Chugoku SC Development Co., Ltd.	75	Shopping Centers	100.0
	Wakayama Station Building Co., Ltd.	75	Shopping Centers	82.5
	Shin-Osaka Station Store Company	60	Shopping Centers	100.0
	Osaka Station Development Co., Ltd.	50	Shopping Centers	100.0
Kyoto Eki-Kanko Department Store Company	40	Shopping Centers	96.3	

SEGMENT	NAME	PAID-IN CAPITAL (Millions of yen)	BUSINESS	EQUITY OWNERSHIP(%)
Other Businesses	West Japan Railway Hotel Development Limited	18,000	Hotel	100.0
	Nippon Travel Agency Co., Ltd.	4,000	Travel Services	79.8
	Hotel Granvia Hiroshima Co., Ltd.	2,800	Hotel	93.1
	Hotel Granvia Osaka Co., Ltd.	2,200	Hotel	53.8
	Hotel Granvia Okayama Co., Ltd.	2,054	Hotel	94.2
	Wakayama Terminal Building Co., Ltd.	1,000	Hotel	61.0
	Sannomiya Terminal Building Co., Ltd.	500	Hotel	67.0
	JR West Japan LINEN Co., Ltd.	290	Other	97.4
	JR West Japan Communications Company	200	Advertising Services	100.0
	WEST JAPAN RAILWAY TECHNOS CORPORATION	161	Maintenance for Railcar Facilities	62.7
	JR West Japan General Building Service Co., Ltd.	130	Other	95.0
	West Japan Railway MAINTEC Co., LTD.	100	Cleaning and Maintenance Works	100.0
	Railway Track and Structures Technology Co., Ltd.	100	Construction	100.0
	West Japan Railway Techsia Co., Ltd.	100	Maintenance for Machinery	69.1
	West Japan Electric Technologys Co., Ltd.	90	Electric Works	100.0
	West Japan Electric System Co., Ltd.	81	Electric Works	51.5
	JR West Japan MARUNIX Co., Ltd.	80	Other	100.0
	WEST JAPAN RAILWAY SHINKANSEN TECHNOS CORPORATION	80	Maintenance for Railcar Facilities	100.0
	JR-West Japan Consultants Company	50	Construction Consultation	100.0
	JR West Financial Management Co., Ltd.	50	Other	100.0
	JR West Japan Transportation Service Co., Ltd.	50	Other	100.0
	West Japan Railway Golf Co., Ltd.	50	Other	88.1
	JR West Customer Relations Co., Ltd.	50	Other	100.0
	JR WEST IT Solutions Company	48	Information Services	100.0
	West Japan Railway Hiroshima MAINTEC Co., LTD.	35	Cleaning and Maintenance Works	100.0
	West Japan Railway Kanazawa MAINTEC Co., LTD.	30	Cleaning and Maintenance Works	100.0
	West Japan Railway Fukuoka MAINTEC Co., LTD.	30	Cleaning and Maintenance Works	100.0
	West Japan Railway Rent-A-Car & Lease Co., LTD.	30	Rent-a-Car Services	78.6
	West Japan Railway Okayama MAINTEC Co., LTD.	25	Cleaning and Maintenance Works	100.0
	West Japan Railway Fukuchiyama MAINTEC Co., LTD.	20	Cleaning and Maintenance Works	100.0
West Japan Railway Yonago MAINTEC Co., LTD.	20	Cleaning and Maintenance Works	100.0	
West Japan Railway WelNet Co., Ltd.	10	Other	100.0	

# Corporate Data

As of March 31, 2014

## Company Name

West Japan Railway Company

## Head Office

4-24, Shibata 2-chome, Kita-ku, Osaka  
530-8341, Japan

## Date of Establishment

April 1, 1987

## Common Stock

¥100 billion

## Shares Outstanding

193,735,000

## Employees

27,300 (non-consolidated)  
46,006 (consolidated)

## Number of Subsidiaries

142 (incl. 62 consolidated subsidiaries)

## Stock Listings

Tokyo, Nagoya, and Fukuoka  
stock exchanges

## Transfer Agent

Sumitomo Mitsui Trust Bank, Limited

## MAIN FEATURES OF BUSINESS

### Transportation Operations

#### ■ Railway

##### Total route length

5,015.7 kilometers

Shinkansen 644.0 kilometers

Conventional lines (50 lines):

Conventional lines 4,371.7 kilometers

\* The total route length is the sum  
of the Shinkansen and conventional

##### Number of stations

1,222

##### Number of passenger cars

6,511

##### Number of passengers

Total 1,858 million

Shinkansen 67 million

Conventional lines 1,806 million

##### Passenger-kilometers

Total 55,894 million

Shinkansen 17,617 million

Conventional lines 38,276 million

##### Train-kilometers per day

Total 524 thousand

Shinkansen 108 thousand

Conventional lines 415 thousand

#### ■ Bus Services

#### ■ Ferry Services

### Non-Transportation Operations

#### ■ Retail Business

Sales of Goods and Food Services

Department Store

Wholesale

Other Retail Businesses

#### ■ Real Estate Business

Real Estate Sales and Leasing

Shopping Centers

#### ■ Other Businesses

Hotel

Travel Services

Rent-a-Car Services

Advertising Services

Maintenance for Railcar Facilities

Maintenance for Machinery

Electric Works

Construction Consultation

Cleaning and Maintenance Works

Information Services

Construction

Other

For further information, please contact the Investor Relations section of the  
Corporate Planning Headquarters at the West Japan Railway Company Head Office.  
4-24, Shibata 2-chome, Kita-ku, Osaka 530-8341, Japan  
Tel: 81-6-6375-8981 Fax: 81-6-6375-8976  
E-mail: [ir@westjr.co.jp](mailto:ir@westjr.co.jp) URL: <http://www.westjr.co.jp>



WEST JAPAN RAILWAY COMPANY