

**Consolidated Financial Statements**

**West Japan Railway Company**

*Year ended March 31, 2017  
with Independent Auditor's Report*

West Japan Railway Company  
Consolidated Financial Statements

Year ended March 31, 2017

**Contents**

**Consolidated Financial Statements**

Independent Auditor's Report .....	1
Consolidated Balance Sheet .....	2
Consolidated Statement of Profit or Loss.....	4
Consolidated Statement of Comprehensive Income .....	5
Consolidated Statement of Changes in Net Assets.....	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements .....	9

## 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, 2017, and the consolidated statements of profit or loss, 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, 2017, 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 21, 2017  
Osaka, Japan

# West Japan Railway Company

## Consolidated Balance Sheet

As of March 31, 2017

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2017	2016	2017
<b>Assets</b>			
Current assets:			
Cash and deposits ( <i>Notes 3, 11 and 21</i> )	¥ 63,578	¥ 45,973	\$ 567
Short-term investments ( <i>Notes 3, 4 and 21</i> )	—	35,000	—
Notes and accounts receivable ( <i>Note 21</i> ):			
Unconsolidated subsidiaries and affiliates	774	759	6
Trade	131,714	131,929	1,176
Less allowance for doubtful accounts	(837)	(1,014)	(7)
Inventories ( <i>Note 5</i> )	82,802	59,387	739
Income taxes refundable ( <i>Note 13</i> )	13	38	0
Deferred income taxes ( <i>Note 13</i> )	17,582	17,979	156
Prepaid expenses and other current assets	56,237	59,661	502
Total current assets	351,864	349,715	3,141
Investments:			
Unconsolidated subsidiaries and affiliates ( <i>Notes 6 and 21</i> )	55,907	53,060	499
Other securities ( <i>Notes 4, 11 and 21</i> )	24,559	16,487	219
Total investments	80,467	69,548	718
Property, plant and equipment, at cost ( <i>Notes 7, 8 and 11</i> ):			
Land	754,274	675,002	6,734
Buildings and structures	3,275,914	3,180,511	29,249
Machinery, equipment and vehicles	1,476,976	1,415,518	13,187
Tools, furniture and fixtures	140,741	134,846	1,256
Construction in progress	54,129	81,885	483
	5,702,036	5,487,764	50,911
Less accumulated depreciation	(3,341,972)	(3,245,839)	(29,839)
Property, plant and equipment, net	2,360,063	2,241,925	21,071
Deferred income taxes ( <i>Note 13</i> )	130,777	124,868	1,167
Asset for retirement benefits ( <i>Note 15</i> )	1,505	1,384	13
Other assets ( <i>Note 11</i> )	83,174	55,752	742
Total assets ( <i>Note 23</i> )	¥ 3,007,852	¥ 2,843,194	\$ 26,855

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2017	2016	2017
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term loans ( <i>Notes 10 and 21</i> )	¥ 15,908	¥ 14,775	\$ 142
Current portion of long-term debt ( <i>Notes 10, 11, 21 and 22</i> )	82,354	64,579	735
Current portion of long-term payables ( <i>Notes 12 and 21</i> )	1,512	30,712	13
Notes and accounts payable ( <i>Notes 11 and 21</i> ):			
Unconsolidated subsidiaries and affiliates	2,556	2,891	22
Trade	149,271	164,816	1,332
Prepaid railway fares received	37,407	38,589	333
Deposits and advances received ( <i>Note 21</i> )	102,428	94,534	914
Accrued expenses ( <i>Note 21</i> )	35,457	32,192	316
Income taxes payable ( <i>Notes 13 and 21</i> )	19,194	32,648	171
Provision for employees' bonuses	37,428	37,777	334
Provision for customer point programs	2,041	1,619	18
Other current liabilities	59,708	21,648	533
Total current liabilities	545,270	536,786	4,868
Long-term debt ( <i>Notes 10, 11, 21 and 22</i> )	855,380	806,678	7,637
Long-term payables ( <i>Notes 12 and 21</i> )	105,957	107,472	946
Liability for retirement benefits ( <i>Note 15</i> )	325,085	341,359	2,902
Provision for large-scale renovation of Shinkansen infrastructure	4,166	–	37
Provision for environmental safety measures	18,799	21,099	167
Provision for loss on railway line liquidation	11,457	–	102
Provision for unutilized gift tickets	2,575	2,668	22
Deferred income taxes ( <i>Note 13</i> )	3,195	3,271	28
Other long-term liabilities	103,352	97,481	922
Total long-term liabilities	1,429,971	1,380,031	12,767
Contingent liabilities ( <i>Note 16</i> )			
Net assets:			
Shareholders' equity ( <i>Note 17</i> ):			
Common stock			
Authorized – 800,000,000 shares			
at March 31, 2017 and 2016			
Issued and outstanding – 193,735,000 shares			
at March 31, 2017 and 2016			
	100,000	100,000	892
Capital surplus	55,068	55,068	491
Retained earnings ( <i>Note 25</i> )	768,358	704,187	6,860
Less treasury stock, at cost – 129,899 and 129,849 shares			
at March 31, 2017 and 2016	(481)	(481)	(4)
Total shareholders' equity	922,945	858,775	8,240
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	3,763	3,523	33
Net unrealized deferred gain (loss) on hedging instruments	188	(121)	1
Retirement benefits liability adjustments ( <i>Note 15</i> )	13,538	15,685	120
Total accumulated other comprehensive income	17,491	19,087	156
Non-controlling interests	92,173	48,513	822
Total net assets	1,032,610	926,376	9,219
Total liabilities and net assets	¥ 3,007,852	¥ 2,843,194	\$ 26,855

*See accompanying notes to consolidated financial statements.*

West Japan Railway Company  
Consolidated Statement of Profit or Loss

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2017	2016	2017
Operating revenues ( <i>Notes 9 and 23</i> )	¥ 1,441,411	¥ 1,451,300	\$ 12,869
Operating expenses:			
Transportation, other services and cost of sales ( <i>Note 9</i> )	1,072,732	1,084,891	9,577
Selling, general and administrative expenses ( <i>Note 18</i> )	192,287	184,869	1,716
	<u>1,265,019</u>	<u>1,269,760</u>	<u>11,294</u>
Operating income ( <i>Notes 9 and 23</i> )	176,392	181,539	1,574
Other income (expenses):			
Interest and dividend income	650	766	5
Interest expense	(22,350)	(24,158)	(199)
Equity in earnings of affiliates	1,574	1,288	14
Provision for loss on railway line liquidation	(11,470)	–	(102)
Provision for environmental safety measures	–	(12,939)	–
Gain on contributions received for construction ( <i>Note 7</i> )	14,649	14,487	130
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment ( <i>Note 7</i> )	(13,858)	(13,652)	(123)
Loss on impairment of property, plant and equipment ( <i>Note 8</i> )	(5,114)	(10)	(45)
Gain on sales of property, plant and equipment	1,479	1,898	13
Loss on sales of property, plant and equipment	(401)	(108)	(3)
Other, net ( <i>Notes 7 and 9</i> )	(3,797)	(3,953)	(33)
	<u>(38,637)</u>	<u>(36,380)</u>	<u>(344)</u>
Profit before income taxes	137,754	145,158	1,229
Income taxes ( <i>Note 13</i> ):			
Current	43,490	52,259	388
Deferred	739	2,860	6
	<u>44,230</u>	<u>55,119</u>	<u>394</u>
Profit	93,524	90,038	835
Profit attributable to non-controlling interests	2,235	4,170	19
Profit attributable to owners of parent	<u>¥ 91,288</u>	<u>¥ 85,868</u>	<u>\$ 815</u>

*See accompanying notes to consolidated financial statements.*

## West Japan Railway Company

### Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	Profit	¥ 93,524	¥ 90,038
Other comprehensive income ( <i>Note 19</i> ):			
Net unrealized holding gain (loss) on securities	249	(1,500)	2
Net unrealized deferred gain (loss) on hedging instruments	389	(953)	3
Retirement benefit liability adjustments ( <i>Note 15</i> )	(2,072)	17,222	(18)
Other comprehensive income of affiliates accounted for by equity method attributable to owners of parent	<u>5</u>	<u>15</u>	<u>0</u>
Total other comprehensive (loss) income	<u>(1,427)</u>	<u>14,784</u>	<u>(12)</u>
Total comprehensive income	<u>¥ 92,097</u>	<u>¥104,823</u>	<u>\$ 822</u>

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	Comprehensive income attributable to owners of parent	¥ 89,692	¥101,409
Comprehensive income attributable to non-controlling interests	2,405	3,413	21

**West Japan Railway Company**  
**Consolidated Statement of Changes in Net Assets**

Year ended March 31, 2017

*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 (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥ 100,000	¥ 55,000	¥ 643,198	¥(480)	¥ 797,717	¥ 4,955	¥ 638	¥ (2,047)	¥ 3,547	¥ 45,436	¥ 846,701
Profit attributable to owners of parent	-	-	85,868	-	85,868	-	-	-	-	-	85,868
Cash dividends	-	-	(25,185)	-	(25,185)	-	-	-	-	-	(25,185)
Increase due to merger	-	-	306	-	306	-	-	-	-	-	306
Purchase of treasury stock	-	-	-	(0)	(0)	-	-	-	-	-	(0)
Increase due to changes in equity in affiliates accounted for by equity method	-	-	-	(0)	(0)	-	-	-	-	-	(0)
Purchase of shares of consolidated subsidiaries	-	68	-	-	68	-	-	-	-	-	68
Net changes in items other than shareholders' equity	-	-	-	-	-	(1,431)	(760)	17,732	15,540	3,077	18,618
Balance at April 1, 2016	¥ 100,000	¥ 55,068	¥ 704,187	¥(481)	¥ 858,775	¥ 3,523	¥(121)	¥ 15,685	¥ 19,087	¥ 48,513	¥ 926,376
Profit attributable to owners of parent	-	-	91,288	-	91,288	-	-	-	-	-	91,288
Cash dividends	-	-	(27,122)	-	(27,122)	-	-	-	-	-	(27,122)
Increase due to merger	-	-	5	-	5	-	-	-	-	-	5
Purchase of treasury stock	-	-	-	(0)	(0)	-	-	-	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	240	310	(2,146)	(1,596)	43,659	42,063
Balance at March 31, 2017	¥ 100,000	¥ 55,068	¥ 768,358	¥(481)	¥ 922,945	¥ 3,763	¥ 188	¥ 13,538	¥ 17,491	¥ 92,173	¥ 1,032,610

*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 (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$ 892	\$ 491	\$ 6,287	\$ (4)	\$ 7,667	\$ 31	\$ (1)	\$ 140	\$ 170	\$ 433	\$ 8,271
Profit attributable to owners of parent	-	-	815	-	815	-	-	-	-	-	815
Cash dividends	-	-	(242)	-	(242)	-	-	-	-	-	(242)
Increase due to merger	-	-	0	-	0	-	-	-	-	-	0
Purchase of treasury stock	-	-	-	(0)	(0)	-	-	-	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	2	2	(19)	(14)	389	375
Balance at March 31, 2017	\$ 892	\$ 491	\$ 6,860	\$ (4)	\$ 8,240	\$ 33	\$ 1	\$ 120	\$ 156	\$ 822	\$ 9,219

*See accompanying notes to consolidated financial statements.*



West Japan Railway Company  
Consolidated Statement of Cash Flows

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2017	2016	2017
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 137,754	¥ 145,158	\$ 1,229
Adjustments for:			
Depreciation and amortization	162,729	156,624	1,452
Loss on impairment of property, plant and equipment	5,114	10	45
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	13,858	13,652	123
Loss on disposal of property, plant and equipment	7,335	7,114	65
Decrease in liability for retirement benefits, net	(20,123)	(7,696)	(179)
Increase (decrease) in allowance for doubtful accounts	167	(48)	1
(Decrease) increase in provision for employees' bonuses	(351)	611	(3)
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	–	37
Increase in other accruals	9,305	11,156	83
Interest and dividend income	(650)	(766)	(5)
Interest expense	22,350	24,158	199
Equity in earnings of affiliates	(1,574)	(1,288)	(14)
Gain on contributions received for construction	(14,649)	(14,487)	(130)
Decrease (increase) in notes and accounts receivable	2,155	(3,033)	19
Increase in inventories	(1,131)	(1,632)	(10)
Decrease in notes and accounts payable	(23,044)	(3,168)	(205)
Increase (decrease) in accrued consumption taxes	653	(4,866)	5
Other	8,935	(28)	79
Subtotal	313,002	321,472	2,794
Interest and dividend received	625	747	5
Interest paid	(22,573)	(24,148)	(201)
Income taxes paid	(56,908)	(38,191)	(508)
Net cash provided by operating activities	¥ 234,144	¥ 259,880	\$ 2,090

*See accompanying notes to consolidated financial statements.*

# West Japan Railway Company

## Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2017

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2017	2016	2017
<b>Cash flows from investing activities</b>			
Payments for time deposits with a maturity in excess of three months	¥ (231)	¥ (266)	\$ (2)
Proceeds from time deposits with a maturity in excess of three months	266	231	2
Purchases of property, plant and equipment	(208,832)	(258,616)	(1,864)
Proceeds from sales of property, plant and equipment	1,044	24,243	9
Contributions received for construction	22,728	16,652	202
Purchases of investments in securities	(9,985)	(9,739)	(89)
Proceeds from sales of investments in securities	930	69	8
Purchase of shares of subsidiary resulting in change in scope of consolidation	(93,714)	—	(836)
Net increase in loans receivable	(5,766)	(3,839)	(51)
Other	(2,248)	(1,953)	(20)
Net cash used in investing activities	(295,808)	(233,219)	(2,641)
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term loans	433	(1,546)	3
Proceeds from long-term loans	60,800	64,400	542
Repayment of long-term loans	(34,088)	(48,129)	(304)
Proceeds from issuance of bonds	70,000	35,000	625
Redemption of bonds	(30,000)	(20,000)	(267)
Repayment of long-term payables	(30,650)	(33,633)	(273)
Purchases of treasury stock	(0)	(0)	(0)
Cash dividends paid to owners of parent	(27,118)	(25,197)	(242)
Cash dividends paid to non-controlling interests	(122)	(123)	(1)
Other	35,052	(2,085)	312
Net cash provided by (used in) financing activities	44,304	(31,315)	395
Net decrease in cash and cash equivalents	(17,359)	(4,654)	(154)
Cash and cash equivalents at beginning of year	80,691	85,346	720
Cash and cash equivalents at end of year (Note 3)	¥ 63,332	¥ 80,691	\$ 565

*See accompanying notes to consolidated financial statements.*

# West Japan Railway Company

## Notes to Consolidated Financial Statements

March 31, 2017

### **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, 2016 to the 2017 presentation. Such reclassifications had no effect on consolidated profit or loss or net assets.

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 ¥112 = U.S.\$1.00, the exchange rate prevailing on March 31, 2017. 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

#### 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 profit includes the Company's equity in the current profit or loss of such companies after the elimination of unrealized intercompany gain or loss.

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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

#### (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:	Principally the retail cost method or the last purchase price method
Real estate for sale and work in progress:	The specific identification method
Rails, materials and supplies:	Principally the moving average method

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

Property, plant and equipment are stated at cost (Note 7). Depreciation is determined primarily by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures included in buildings and structures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

#### (7) *Intangible assets*

Amortization of intangible assets included in other 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.

#### (9) *Goodwill*

Goodwill is amortized over a period of five years on a straight-line basis.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### *(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.

#### *(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) Provision for employees' bonuses*

Provision for employees' bonuses is provided at an expected payment amount of the bonuses to employees.

#### *(14) Provision for customer point programs*

Provision 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

#### *(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 plan assets as of the balance sheet date.

In calculating the retirement benefit obligations, the benefit formula basis is applied for the attribution of expected retirement benefits to each period up to the end of the current year.

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) Provision for large-scale renovation of Shinkansen infrastructure*

Provision for large-scale renovation of Shinkansen infrastructure is provided based on the Article 17, Paragraph 1, of the Nationwide Shinkansen Railway Development Act.

#### *(17) Provision for environmental safety measures*

Provision for environmental safety measures is provided, at a reasonably estimated amount, for expected expenditures corresponding to the disposal to polychlorinated biphenyl and other wastes held by the Company and certain consolidated subsidiaries.

#### *(18) Provision for loss on railway line liquidation*

Provision for loss on railway line liquidation is provided, at a reasonably estimated amount, for expected expenditures corresponding to the dismantlement of the bridges, electrical facilities and other items along the Sanko Line (running from Gotsu station to Miyoshi station), which is scheduled to close from April 1, 2018.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

#### *(19) Provision for unutilized gift tickets*

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

#### *(20) 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.

#### *(21) 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.

#### *(22) 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 (the "allocation method"). 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 (the "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.



## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 2. Accounting Change

Certain domestic subsidiaries adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (PITF) No.32, June 17, 2016) as a result of revisions to the Corporation Tax Act of Japan from the fiscal year ended March 31, 2017. Accordingly, the depreciation method for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact of this change on the consolidated financial statements as of and for the year ended March 31, 2017 was immaterial.

#### 3. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2017 and 2016 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:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Cash and deposits	¥ 63,578	¥ 45,973	\$ 567
Time deposits with original maturities in excess of three months included in cash and deposits	(245)	(281)	(2)
Certificate of deposits with the original maturity within three months included in short-term investments	–	35,000	–
Cash and cash equivalents	¥ 63,332	¥ 80,691	\$ 565

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 3. Cash and Cash Equivalents (continued)

On March 31, 2017, the Company newly consolidated the accounts of Ryoju Properties Co., Ltd.

Assets acquired and liabilities assumed on the acquisition date, the related acquisition costs and net disbursement for acquisition of the subsidiary's shares are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2017	2017
Current assets	¥ 33,473	\$ 298
Long-term assets	118,601	1,058
Goodwill	5,989	53
Current liabilities	(7,260)	(64)
Long-term liabilities	(6,890)	(61)
Non-controlling interests	(41,377)	(369)
Acquisition cost of shares	102,536	915
Cash and cash equivalents	(8,822)	(78)
Net disbursement for acquisition of the subsidiary's shares	¥ 93,714	\$ 836

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 4. 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, 2017 and 2016. 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.

Marketable securities classified as other securities at March 31, 2017 and 2016 are summarized as follows:

	<i>Millions of yen</i>					
	2017			2016		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥13,994	¥ 8,134	¥5,859	¥11,563	¥ 6,341	¥5,222
Debt securities:						
Government bonds	275	264	10	276	263	13
Corporate bonds	6	6	0	12	12	0
Subtotal	14,275	8,405	5,870	11,853	6,617	5,236
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	7,776	8,274	(498)	2,131	2,307	(175)
Other	-	-	-	35,000	35,000	-
Subtotal	7,776	8,274	(498)	37,131	37,307	(175)
Total	¥22,051	¥16,680	¥5,371	¥48,984	¥43,924	¥5,060

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 4. Short-Term Investments and Investments in Securities (continued)

	<i>Millions of U.S. dollars</i>		
	2017		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 124	\$ 72	\$ 52
Debt securities:			
Government bonds	2	2	0
Corporate bonds	0	0	0
Subtotal	127	75	52
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	69	73	(4)
Other	–	–	–
Subtotal	69	73	(4)
Total	\$ 196	\$ 148	\$ 47

#### 5. Inventories

Inventories at March 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
	Merchandise and real estate for sale	¥15,798	¥ 12,150
Work in progress	47,285	27,672	422
Rails, materials and supplies	19,718	19,563	176
	¥ 82,802	¥ 59,387	\$ 739

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 6. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Investments in:			
Unconsolidated subsidiaries	¥ 11,001	¥ 9,949	\$ 98
Affiliates	44,906	43,110	400
	¥ 55,907	¥ 53,060	\$ 499

#### 7. Property, Plant and Equipment

Contributions for the construction of railway facilities granted by national and municipal governments and others are recognized as gain on contributions received for construction upon receipt. These contribution amounts are deducted directly from the acquisition costs of the related property, plant and equipment upon completion 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 recognized as other income upon receipt. These compensation amounts are deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

For railway services, the accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2017 and 2016 amounted to ¥695,970 million (\$6,214 million) and ¥684,654 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, 2017 and 2016 totaled ¥1,445 million (\$12 million) and ¥727 million, respectively.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 8. Loss on Impairment of Property, plant and equipment

The Company and its consolidated subsidiaries group their property, plant and equipment relating to transportation, sales of goods and food services and other businesses primarily in accordance with each business, which manages its revenues and expenses separately. They also group their property, plant and equipment in the real estate business, property, plant and equipment to be disposed of and idle assets primarily on an individual asset basis. For the year ended March 31, 2017, the Company wrote down the following property, plant and equipment to the respective recoverable value and recorded a related loss on impairment of totaling ¥5,114 million (\$45 million) in the accompanying consolidated statement of profit or loss for the year then ended:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2017	2017
Assets to be disposed of:		
Buildings, structures, land and other, held in Gotsu City, Shimane Prefecture	¥ 5,068	\$45
Other assets:		
Building, structures, land and other, held in Daito City, Osaka Prefecture	46	0
Total	¥ 5,114	\$45

The recoverable value of the assets based on estimated selling value in the above table was measured primarily at net realizable value.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 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 ¥44,177 million (\$394 million) and ¥43,201 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

<i>Millions of yen</i>			
2017			
Carrying value			Fair value
As of April 1, 2016	Net change	As of March 31, 2017	As of March 31, 2017
¥ 192,547	¥ 110,923	¥ 303,470	¥ 613,949

<i>Millions of yen</i>			
2016			
Carrying value			Fair value
As of April 1, 2015	Net change	As of March 31, 2016	As of March 31, 2016
¥ 161,094	¥ 31,452	¥ 192,547	¥ 481,083

<i>Millions of U.S. dollars</i>			
2017			
Carrying value			Fair value
As of April 1, 2016	Net change	As of March 31, 2017	As of March 31, 2017
\$ 1,719	\$ 990	\$ 2,709	\$ 5,481

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 9. Investment and Rental Properties (continued)

Notes:

1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The components of net change in carrying value for the year ended March 31, 2017 included increase mainly due to consolidation of a new subsidiary in the amount of ¥102,017 million (\$910 million) and decrease mainly due to depreciation in the amount of ¥9,370 million (\$83 million).

The components of net change in carrying value for the year ended March 31, 2016 included increase mainly due to acquisitions of real estate properties in the amount of ¥42,965 million and decrease mainly due to depreciation in the amount of ¥9,357 million.

3. The fair value of the main real estate properties is estimated in accordance with appraisal standards for valuing real estate. The fair value of the other real estate properties is based on the carrying value or a different valuation method because those values are considered to reasonably reflect the fair value.



## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 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, 2017 and 2016 ranged from 0.16% to 0.43% and from 0.21% to 0.48%, respectively.

Long-term debt at March 31, 2017 and 2016 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.00%, due from 2018 through 2019	¥ 60,000	¥ 90,000	\$ 535
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.175% to 2.49%, due from 2019 through 2057	474,981	404,979	4,240
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.66% to 3.15%, due in installments from 2018 through 2021	17,375	20,189	155
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.00% to 2.15%, due in installments from 2018 through 2057	363,900	333,700	3,249
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2018 through 2019	910	1,520	8
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2018 through 2037	7,286	7,586	65
Other	13,282	13,282	118
	<u>937,734</u>	<u>871,257</u>	<u>8,372</u>
Less current portion	<u>(82,354)</u>	<u>(64,579)</u>	<u>(735)</u>
	<u>¥ 855,380</u>	<u>¥ 806,678</u>	<u>\$ 7,637</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2018	¥ 82,354	\$ 735
2019	59,700	533
2020	77,951	695
2021	75,454	673
2022	59,288	529
2023 and thereafter	583,003	5,205
	¥ 937,753	\$ 8,372

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, 2017 and 2016 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,160
Credit utilized	-	-	-
Available credit	¥ 130,000	¥ 130,000	\$ 1,160

#### 11. Pledged Assets

Assets pledged at March 31, 2017 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2017	
Bank deposits included in cash and deposits	¥ 245	\$ 2
Investments in other securities	635	5
Land	159	1
Buildings and structures, net	15,016	134
Other assets	393	3
	¥ 16,451	\$ 146

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 11. Pledged Assets (continued)

The indebtedness secured by such collateral at March 31, 2017 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2017	
Notes and accounts payable	¥ 15	\$ 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	300	2
	¥ 925	\$ 8

In addition, the entire property of the Company is subject to statutory preferential rights for the security of all its secured bonds in the amount of ¥80,000 million (\$714 million).

#### 12. Long-Term Payables

Long-term payables at March 31, 2017 and 2016 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Variable interest portion, due in installments from 2017 through 2018	¥ –	¥ 13,978	\$ –
Fixed interest portion at 6.55% due in installments from 2018 through 2052	104,679	120,695	934
Other	2,790	3,511	24
	107,470	138,185	959
Less current portion	(1,512)	(30,712)	(13)
	¥ 105,957	¥ 107,472	\$ 946

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 12. Long-Term Payables (continued)

The average variable interest rate for the year ended March 31, 2016 was 4.13%.

The aggregate annual maturities of long-term payables subsequent to March 31, 2017 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2018	¥ 1,512	\$ 13
2019	1,579	14
2020	1,643	14
2021	1,572	14
2022	1,313	11
2023 and thereafter	99,848	891
	¥ 107,470	\$ 959

#### 13. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 33.06% for the year ended March 31, 2016.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2016 as a percentage of profit before income taxes is as follows:

	2016
Statutory tax rate	33.06 %
Effect of:	
Decrease in deferred tax assets resulting from changes in statutory tax rates	5.27
Change in valuation allowance	(0.31)
Per capita portion of inhabitants' taxes	0.52
Permanent non-deductible expenses	0.32
Other	(0.88)
Effective tax rate	37.97 %

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2017 was omitted because such difference is less than 5% of the statutory tax rate.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 13. Income Taxes (continued)

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2017 and 2016 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Deferred tax assets:			
Provision for employees' bonuses	¥ 11,830	¥ 12,020	\$ 105
Accrued enterprise taxes included in accrued expenses	1,838	2,727	16
Liability for retirement benefits	99,910	105,147	892
Unrealized gain on property, plant and equipment	13,769	12,651	122
Tax loss carryforwards	9,277	8,088	82
Other	42,675	31,977	381
Gross deferred tax assets	<u>179,302</u>	<u>172,613</u>	<u>1,600</u>
Valuation allowance	(15,128)	(14,194)	(135)
Total deferred tax assets	<u>164,173</u>	<u>158,418</u>	<u>1,465</u>
Deferred tax liabilities:			
Unrealized holding gain on securities	(1,992)	(1,930)	(17)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,739)	(11,641)	(104)
Gain on valuation of assets of consolidated subsidiaries	(1,196)	(1,202)	(10)
Other	(4,080)	(4,067)	(36)
Total deferred tax liabilities	<u>(19,008)</u>	<u>(18,841)</u>	<u>(169)</u>
Deferred tax assets, net	<u>¥ 145,165</u>	<u>¥ 139,576</u>	<u>\$ 1,296</u>

#### 14. Leases

Future minimum lease payments subsequent to March 31, 2017 for noncancelable operating leases were as follows:

<u>Year ending March 31,</u>	<u><i>Millions of yen</i></u>	<u><i>Millions of U.S. dollars</i></u>
2018	¥ 1,265	\$ 11
2019 and thereafter	11,904	106
	<u>¥ 13,169</u>	<u>\$ 117</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 14. Leases (continued)

Future minimum lease receipts subsequent to March 31, 2017 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2018	¥ 259	\$ 2
2019 and thereafter	1,536	13
	¥ 1,796	\$ 16

#### 15. Retirement Benefit Plans

The Company and its consolidated subsidiaries have lump-sum severance and retirement benefit plans. Certain consolidated subsidiaries have a small-and-medium-sized enterprise mutual aid plan (a defined contribution retirement plan) 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.

The changes in the retirement benefit obligations, except those for which the Simplified Method was applied, during the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Retirement benefit obligations at beginning of year	¥ 348,422	¥ 379,812	\$ 3,110
Service cost	12,198	13,582	108
Interest cost	2,659	3,058	23
Actuarial loss (gain)	1,249	(21,429)	11
Retirement benefits paid	(34,402)	(25,833)	(307)
Prior service cost	2,261	-	20
Reclassification of retirement benefit obligation resulting from change from Simplified Method	-	891	-
Other	606	(1,660)	5
Retirement benefit obligations at end of year	¥ 332,995	¥ 348,422	\$ 2,973

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 15. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied, during the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Plan assets at beginning of year	¥ 13,990	¥ 12,327	\$ 124
Expected return on plan assets	240	267	2
Actuarial gain (loss)	51	(390)	0
Contributions paid	1,387	1,444	12
Retirement benefits paid	(564)	(599)	(5)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	-	941	-
Other	666	-	5
Plan assets at end of year	<u>¥ 15,773</u>	<u>¥ 13,990</u>	<u>\$ 140</u>

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Liability for retirement benefits at beginning of year	¥ 5,543	¥ 5,207	\$ 49
Retirement benefit expenses	913	887	8
Retirement benefits paid	(543)	(451)	(4)
Contributions paid	(163)	(150)	(1)
Reclassification of liability for retirement benefits resulting from change from Simplified Method	-	49	-
Increase resulting from newly consolidated subsidiary	607	-	5
Liability for retirement benefits at end of year	<u>¥ 6,358</u>	<u>¥ 5,543</u>	<u>\$ 56</u>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2017 and 2016 for the Company's and its consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method was applied:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Funded retirement benefit obligations	¥ 19,203	¥ 17,426	\$ 171
Plan assets at fair value	(16,945)	(15,083)	(151)
	2,258	2,343	20
Unfunded retirement benefit obligations	321,321	337,632	2,868
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 323,580</u>	<u>¥ 339,975</u>	<u>\$ 2,889</u>
Liability for retirement benefits	325,085	341,359	2,902
Asset for retirement benefits	(1,505)	(1,384)	(13)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 323,580</u>	<u>¥ 339,975</u>	<u>\$ 2,889</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 15. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Service cost	¥ 12,198	¥ 13,582	\$ 108
Interest cost	2,659	3,058	23
Expected return on plan assets	(240)	(267)	(2)
Amortization of unrecognized actuarial (gain) loss	(1,803)	3,183	(16)
Amortization of prior service cost	2,261	(1)	20
Amortization of net retirement benefits at transition	–	706	–
Retirement benefit expenses calculated by the Simplified Method	913	887	8
Other	(9)	61	(0)
Retirement benefit expenses under defined benefit pension plans	<u>¥ 15,979</u>	<u>¥ 21,209</u>	<u>\$ 142</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the years ended March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Prior service cost	¥ (0)	¥ (1)	\$ (0)
Actuarial (gain) loss	(3,001)	24,221	(26)
Net retirement benefit at transition	–	706	–
	<u>¥ (3,001)</u>	<u>¥ 24,925</u>	<u>\$ (26)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2017 and 2016 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Unrecognized prior service cost	¥ 0	¥ 0	\$ 0
Unrecognized actuarial gain	19,233	22,235	171
	<u>¥ 19,234</u>	<u>¥ 22,235</u>	<u>\$ 171</u>



## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 15. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2017 and 2016 are as follows:

	2017	2016
Debt securities	50%	41%
Equity securities	27	24
Other	23	35
Total	<u>100%</u>	<u>100%</u>

The expected long-term rate of return on plan assets has been determined considering the anticipated allocation to each asset class at present and in the future, and the expected long-term rate of return on assets held in each category at present and in the future.

The assumptions used in accounting for the above retirement benefit plans for the years ended March 31, 2017 and 2016 are principally as follows:

	2017	2016
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	3.0%	3.0%

Total contributions required to be paid by certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2017 and 2016 amounted to ¥469 million (\$4 million) and ¥392 million, respectively.

#### 16. Contingent Liabilities

At March 31, 2017, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans, accounts payable-trade and other obligations of unconsolidated subsidiaries, affiliates and a third party in the aggregate amount of ¥20,709 million (\$184 million).

At March 31, 2017, the Company was contingently liable for guarantees for debt assumption agreement on corporate bonds originally issued by the Company in the amount of ¥20,000 million (\$178 million).

The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for a train accident on the Fukuchiyama Line, which occurred on April 25, 2005, as well as other related costs; however, it is unable to estimate the amounts of such expenditures on a reasonable basis at the present time.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 17. Shareholders' Equity

The Companies 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 additional paid-in capital included in capital surplus amounted to ¥55,000 million (\$491 million) and legal reserve included in retained earnings amounted to ¥11,327 million (\$101 million) at March 31, 2017 and 2016, respectively.

#### *Common stock and treasury stock*

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2017 and 2016 are summarized as follows:

	Number of shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	193,735,000	–	–	193,735,000
Treasury stock	129,849	50	–	129,899

	Number of shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	193,735,000	–	–	193,735,000
Treasury stock	129,581	268	–	129,849

The increase in treasury stock during the year ended March 31, 2017 was due to the purchases of 50 shares less than one trading unit.

The increase in treasury stock during the year ended March 31, 2016 was due to the purchases of 67 shares less than one trading unit and changes in equity in affiliates accounted for by the equity method of 201 shares.

#### 18. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥9,096 million (\$81 million) and ¥9,238 million for the years ended March 31, 2017 and 2016, respectively.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 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, 2017 and 2016.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥311	¥ (2,379)	\$ 2
Reclassification adjustments for gain included in consolidated statement of profit or loss	(0)	–	(0)
Before tax effect	311	(2,379)	2
Tax effect	(61)	878	(0)
Total	249	(1,500)	2
Net unrealized deferred gain (loss) on hedging instruments:			
Amount arising during the year	571	(1,472)	5
Before tax effect	571	(1,472)	5
Tax effect	(181)	518	(1)
Total	389	(953)	3
Retirement benefit liability adjustments:			
Amount arising during the year	(1,197)	21,038	(10)
Reclassification adjustments for gain and loss included in consolidated statement of profit or loss	(1,803)	3,887	(16)
Before tax effect	(3,001)	24,925	(26)
Tax effect	928	(7,703)	8
Total	(2,072)	17,222	(18)
Other comprehensive income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	(0)	(21)	(0)
Reclassification adjustments for loss included in consolidated statement of profit or loss	6	37	0
Total	5	15	0
Total other comprehensive (loss) income	¥ (1,427)	¥ 14,784	\$ (12)

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 20. Amounts per Share

Amounts per share at March 31, 2017 and 2016 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2017	2016	2017
Net assets	¥4,857.50	¥4,534.29	\$43.37
Profit attributable to owners of parent	471.52	443.53	4.21
Cash dividends	140.00	135.00	1.25

Net assets per share have been computed based on the number of shares of common stock outstanding at each balance sheet date.

Profit attributable to owners of parent per share has been computed based on the profit available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted profit attributable to owners of parent per share has not been presented for the years ended March 31, 2017 and 2016 since the Company had no potentially dilutive stock at March 31, 2017 and 2016.

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

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 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 price volatility 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 thirty nine years from March 31, 2017. 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 four years from March 31, 2017. 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 (22).

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

Overview (continued)

#### (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 Company for managing credit risk arising from trade receivables, the Company monitors due dates and outstanding balances by individual customer. The Company is also making efforts to identify at an early stage and mitigate risks arising from bad debts from customers who are having financial difficulties. The consolidated subsidiaries also monitor the risk as same manners as the Company in accordance with their internal policies.

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 by currency and month and enter into principally 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

Overview (continued)

#### (3) Risk management for financial instruments (continued)

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

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, subsidiaries and affiliates, the Company prepares and updates their cash flow plans on a timely basis to manage liquidity risk. In addition, the Company has kept 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2017 and 2016 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).

	<i>Millions of yen</i>		
	2017		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash and deposits	¥ 63,578	¥ 63,578	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	731	731	–
Trade	127,822	127,822	–
Short-term investments and investments in securities:			
Investments in affiliates	2,525	2,678	153
Other securities	22,051	22,051	–
<b>Liabilities:</b>			
Short-term loans	(15,908)	(15,908)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,556)	(2,556)	–
Trade	(149,271)	(149,271)	–
Income taxes payable	(19,194)	(19,194)	–
Accrued expenses	(5,010)	(5,010)	–
Deposits (component of deposits and advances received)	(82,206)	(82,206)	–
Long-term debt (including current portion)	(930,448)	(1,001,325)	(70,877)
Long-term payables (including current portion)	(107,470)	(229,080)	(121,610)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	343	343	–



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of yen</i>		
	2016		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash and deposits	¥ 45,973	¥ 45,973	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	668	668	–
Trade	127,527	127,527	–
Short-term investments and investments in securities:			
Investments in affiliates	2,422	2,760	337
Other securities	48,984	48,984	–
<b>Liabilities:</b>			
Short-term loans	(14,775)	(14,775)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,891)	(2,891)	–
Trade	(164,816)	(164,816)	–
Income taxes payable	(32,648)	(32,648)	–
Accrued expenses	(4,154)	(4,154)	–
Deposits (component of deposits and advances received)	(77,795)	(77,795)	–
Long-term debt (including current portion)	(863,670)	(953,935)	(90,264)
Long-term payables (including current portion)	(138,185)	(273,035)	(134,849)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(227)	(227)	–

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 21. Financial Instruments (continued)

##### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2017		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash and deposits	\$ 567	\$ 567	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	6	6	–
Trade	1,141	1,141	–
Short-term investments and investments in securities:			
Investments in affiliates	22	23	1
Other securities	196	196	–
<b>Liabilities:</b>			
Short-term loans	(142)	(142)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(22)	(22)	–
Trade	(1,332)	(1,332)	–
Income taxes payable	(171)	(171)	–
Accrued expenses	(44)	(44)	–
Deposits (component of deposits and advances received)	(733)	(733)	–
Long-term debt (including current portion)	(8,307)	(8,940)	(632)
Long-term payables (including current portion)	(959)	(2,045)	(1,085)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	3	3	–

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

Notes:

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

*Cash and deposits and notes and 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, income taxes payable and accrued expense*

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), 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.

Further, the fair value of certain long-term loans, which are subject to treatment using foreign currency swap or interest-rate swap, is estimated by discounting the foreign currency swap or interest-rate swap and the total amounts of principal and interest treated in combination with them based on an interest rate to be applied if similar new loans were entered into.

Long-term payables for purchase of railway facilities included in long-term payable 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 is 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

2. Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2017 and 2016 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2017	2016	2017
Investments in securities			
Unlisted stocks	¥ 55,889	¥ 53,140	\$ 499
Other	0	0	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 and deposits, receivables, short-term investments and investments in securities with maturities at March 31, 2017 is as follows:

	<i>Millions of yen</i>		
	2017		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 53,511	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	731	–	–
Trade	127,817	5	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposits)	–	–	–
Other securities with maturities (national government bonds)	–	152	121
Other securities with maturities (corporate bonds)	6	–	–
Total	¥ 182,066	¥ 157	¥ 121

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 21. Financial Instruments (continued)

##### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2017		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 477	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	6	–	–
Trade	1,141	0	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposit)	–	–	–
Other securities with maturities (national government bonds)	–	1	1
Other securities with maturities (corporate bonds)	0	–	–
Total	<u>\$ 1,625</u>	<u>\$ 1</u>	<u>\$ 1</u>

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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2017 and 2016.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2017 and 2016 were as follows:

#### Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	2017		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts Buy	Accounts payable (Forecasted transaction)	¥ 2,563	¥ 17	¥ 78 (*1)
			2,968	44	205 (*1)
			1,858	188	65 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Sell	Accounts receivable (Forecasted transaction)	145	–	( 6 ) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Buy	Accounts payable	339	–	(*2)
			338	–	(*2)
			143	–	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	5,000	5,000	(*2)
			¥ 13,356	¥5,249	¥ 343

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Derivative Transactions (continued)

#### Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2016		Estimated fair value
			Notional amount	Notional amount (Over 1 year)	
			<i>Millions of yen</i>		
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	¥ 5,172	¥ –	¥ (97) (*1)
	U.S. dollars	(Forecasted transaction)	3,458	–	(52) (*1)
	Other		2,051	–	(77) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Sell				
	Euro	Accounts receivable (Forecasted transaction)	–	–	–
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	418	–	(*2)
	U.S. dollars		410	–	(*2)
	Other		178	–	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion				
	Pay Yen / Receive U.S. dollars				
	(Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	3,100	–	(*2)
			<u>¥ 14,790</u>	<u>¥ –</u>	<u>¥ (227)</u>

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Derivative Transactions (continued)

#### Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2017		
			<i>Millions of U.S. dollars</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts Buy				
		Euro	\$ 22	\$ 0	\$ 0 (*1)
		U.S. dollars	26	0	1 (*1)
		Other	16	1	0 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Sell	Accounts receivable			
		Euro (Forecasted transaction)	1	-	(0) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Buy				
		Euro	3	-	(*2)
		U.S. dollars	3	-	(*2)
		Other	1	-	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	44	44	(*2)
			<u>\$ 119</u>	<u>\$46</u>	<u>\$ 3</u>

(\*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 hedged items, their fair values were included in hedged items.



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Derivative Transactions (continued)

#### Interest-rate related transactions

			2017		
			<i>Millions of yen</i>		
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 included in long-term debt	¥ 40,100	¥ 40,100	(*)

  

			2016		
			<i>Millions of yen</i>		
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 included in long-term debt	¥ 37,000	¥ 37,000	(*)

  

			2017		
			<i>Millions of U.S. dollars</i>		
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 included in long-term debt	\$ 358	\$ 358	(*)

(\*) 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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### **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." "Transportation" involves railway, bus, and ferry services. "Sales of goods and food services" involves department store, restaurant and wholesale businesses. "Real estate" involves sales or leasing of real estate and management of shopping malls.

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.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 23. Segment Information (continued)

Reportable segment information for the years ended March 31, 2017 and 2016 is outlined as follows:

	<i>Millions of yen</i>						
	2017						
	Reportable segments					Elimination and adjustments	Consolidated
Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 929,104	¥ 233,908	¥ 109,590	¥ 168,808	¥ 1,441,411	¥ –	¥ 1,441,411
Intersegment operating revenues or transfers	18,449	9,164	18,869	264,949	311,433	(311,433)	–
Total	<u>¥ 947,554</u>	<u>¥ 243,073</u>	<u>¥ 128,460</u>	<u>¥ 433,758</u>	<u>¥ 1,752,845</u>	<u>¥ (311,433)</u>	<u>¥ 1,441,411</u>
Segment income	¥ 121,792	¥ 5,249	¥ 32,222	¥ 20,468	¥ 179,733	¥ (3,341)	¥ 176,392
Segment assets	¥ 2,038,979	¥ 95,229	¥ 593,346	¥ 406,179	¥ 3,133,735	¥ (125,883)	¥ 3,007,852
Other items:							
Depreciation and amortization	¥ 137,189	¥ 5,524	¥ 17,507	¥ 2,507	¥ 162,729	¥ –	¥ 162,729
Loss on impairment of property, plant and equipment	2,594	712	–	1,807	5,114	–	5,114
Investment in affiliates accounted for by the equity method	24,240	–	–	11,258	35,498	–	35,498
Increase in property, plant and equipment and intangible assets	172,260	6,172	142,010	13,025	333,469	–	333,469

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 23. Segment Information (continued)

		<i>Millions of yen</i>						
		2016						
		Reportable segments						
		Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:								
Operating revenues:								
External customers	¥	928,782	¥ 232,071	¥108,897	¥ 181,548	¥ 1,451,300	¥ –	¥ 1,451,300
Intersegment operating revenues or transfers		18,070	8,498	18,918	276,999	322,486	(322,486)	–
Total	¥	946,853	¥ 240,569	¥127,815	¥ 458,548	¥ 1,773,786	¥ (322,486)	¥ 1,451,300
Segment income	¥	125,190	¥ 5,320	¥ 32,725	¥ 22,427	¥ 185,663	¥ (4,123)	¥ 181,539
Segment assets	¥	2,025,476	¥ 100,395	¥426,701	¥ 399,681	¥ 2,952,254	¥ (109,059)	¥ 2,843,194
Other items:								
Depreciation and amortization	¥	131,609	¥ 5,568	¥ 17,159	¥ 2,286	¥ 156,624	¥ –	¥ 156,624
Investment in affiliates accounted for by the equity method		22,917	–	–	10,600	33,517	–	33,517
Increase in property, plant and equipment and intangible assets		214,221	6,291	24,679	9,355	254,547	–	254,547

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 23. Segment Information (continued)

		<i>Millions of U.S. dollars</i>						
		2017						
		Reportable segments						
		Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:								
Operating revenues:								
External customers	\$ 8,295	\$ 2,088	\$ 978	\$ 1,507	\$ 12,869	\$ –	\$ 12,869	
Intersegment operating revenues or transfers	164	81	168	2,365	2,780	(2,780)	–	
Total	<u>\$ 8,460</u>	<u>\$ 2,170</u>	<u>\$ 1,146</u>	<u>\$ 3,872</u>	<u>\$ 15,650</u>	<u>\$ (2,780)</u>	<u>\$ 12,869</u>	
Segment income	\$ 1,087	\$ 46	\$ 287	\$ 182	\$ 1,604	\$ (29)	\$ 1,574	
Segment assets	\$ 18,205	\$ 850	\$ 5,297	\$ 3,626	\$ 27,979	\$ (1,123)	\$ 26,855	
Other items:								
Depreciation and amortization	\$ 1,224	\$ 49	\$ 156	\$ 22	\$ 1,452	\$ –	\$ 1,452	
Loss on impairment of property, plant and equipment	23	6	–	16	45	–	45	
Investment in affiliates accounted for by the equity method	216	–	–	100	316	–	316	
Increase in property, plant and equipment and intangible assets	1,538	55	1,267	116	2,977	–	2,977	

“Other” involves business segments not included in the reportable segments, such as “Hotel services,” “Travel agent services” and “Construction.”

The adjustments of segment income in the amounts of ¥3,341 million (\$29 million) and ¥4,123 million for the years ended March 31, 2017 and 2016, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥125,883 million (\$1,123 million) and ¥109,059 million, include corporate assets not allocated to reportable segments of ¥181,951 million (\$1,624 million) and ¥204,266 million, and eliminations of intersegment transactions of ¥307,834 million (\$2,748 million) and ¥313,326 million at March 31, 2017 and 2016, respectively.

Segment income is reconciled to operating income in the consolidated statement of profit or loss.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 23. Segment Information (continued)

Loss on impairment of property, plant and equipment of railway facilities that the Company decided to abolish was recognized in Transportation segment.

Loss on impairment of property, plant and equipment was omitted because the amount was immaterial for the year ended March 31, 2016.

Information on each product and service was omitted for the years ended March 31, 2017 and 2016 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, 2017 and 2016 because there were no items that meet their disclosure criteria.

Information on loss on impairment of property, plant and equipment per each reportable segment was omitted for the year ended March 31, 2017 and 2016 because it is disclosed in Segment information.

Information on amortization of goodwill and the remaining balance by reportable segment as of and was omitted for the years ended March 31, 2017 and 2016 because the amounts were immaterial.

### 24. Business Combinations

#### Business combination through acquisition

##### *(1) Outline of the business combination*

- (a) Name of the acquired company  
Ryoju Properties Co., Ltd.
- (b) Business description of the acquired company  
Real estate leasing, real estate subdivision and sale, others
- (c) Principal reason for business combination  
The Company aims to expand and reinforce the real estate business in the Tokyo metropolitan area and other promising markets outside its railway service areas.
- (d) Date of the business combination  
February 1, 2017
- (e) Legal form of business combination  
Acquisition of shares by cash

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 24. Business Combinations (continued)

#### Business combination through acquisition (continued)

##### (1) Outline of the business combination (continued)

- (f) Name after the business combination  
Ryoju Properties Co., Ltd.
- (g) Ratio of voting rights acquired  
Before acquisition: 0%  
After acquisition: 70%
- (h) Principal basis for determination of the acquiring company  
The Company became the acquiring company because the Company holds more than half of voting rights through the acquisition of shares of Ryoju Properties Co., Ltd.

##### (2) Period of the operating results of the acquired company included in the accompanying consolidated financial statements

As the acquisition date is deemed to be March 31, 2017, solely the acquiree's balance sheet is consolidated, and the acquiree's operating results are not included in the consolidated statement of profit or loss for the fiscal year ended March 31, 2017.

##### (3) Acquisition cost of the acquired company and details of the type of consideration

		<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
Consideration for acquisition	Cash	¥ 102,536	\$ 915
Acquisition cost		¥ 102,536	\$ 915

##### (4) Major acquisition-related costs and nature

Advisory fees and other: ¥760 million (\$6 million)

##### (5) Amount of goodwill generated, reason for generation of goodwill, method of amortization and amortization period

- (a) Amount of goodwill  
¥5,989 million (\$53 million)
- (b) Reason for generation of goodwill  
The acquisition cost of the acquiree exceeded the net amount of assets acquired and liabilities assumed, and the difference is recognized as goodwill.
- (c) Method of amortization and amortization period  
Straight-line method over 5 years

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 24. Business Combinations (continued)

##### Business combination through acquisition (continued)

(6) *Amount of assets acquired and liabilities assumed as of the date of business combination and major breakdown*

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Current assets	¥ 33,473	\$ 298
Long-term assets	118,601	1,058
Total assets	¥ 152,075	\$ 1,357
Current liabilities	¥ 7,260	\$ 64
Long-term liabilities	6,890	61
Total liabilities	¥ 14,151	\$ 126

(7) *Estimated amount of the effect on the consolidated statement of profit or loss for the fiscal year ended March 31, 2017 assuming that the business combination was completed at the beginning of the fiscal year, and the calculation method.*

The Company did not calculate the estimated amount due to the difficulty of the calculation.

#### 25. Subsequent Events

(1) *Issuance of bonds*

On April 14, 2017, the Company decided to issue corporate bonds, based on a resolution approved at a meeting of the Board of Directors held on March 15, 2017. Details of the bond issuance are as follows:

Description	The 49th Series of West Japan Railway Bonds
Issuance date	April 21, 2017
Maturity date	April 20, 2057
Total issuance amount	¥10,000 million (\$89 million)
Issue price	¥100 (\$0.89) with a face value of ¥100 (\$0.89)
Annual interest rate	1.216%
Type	Unsecured
Usage of funds	Repayment of loans



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 25. Subsequent Events (continued)

#### (2) 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, 2017, was to be approved at a meeting of the shareholders of the Company to be held on June 22, 2017:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥70 = U.S.\$0.62 per share)	¥ 13,561	\$ 121

### 26. Supplemental Information

The Company and its domestic consolidated subsidiaries adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

Following sincere discussions between the Company and municipalities along the Sanko Line (running from Gotsu station to Miyoshi station), a notice on abolishing the line, which is scheduled to become effective from April 1, 2018, was filed with the Minister of Land, Infrastructure, Transport and Tourism. The Company will continue to cooperate with the affected municipalities to build an alternative transportation system after the abolishment as a business operator that has been conducting public transportation operations along the Sanko line.

The Company notified the municipalities in March 2017 of the Company’s plan to principally dismantle the bridges and electrical facilities along the line after operations cease. As a result, the expected dismantlement costs are recognized as provision for loss on railway line liquidation in the amount of ¥11,470 million (\$102 million) in the accompanying consolidated statement of profit or loss for the year ended March 31, 2017.