

(Translation)

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To the Shareholders:

JR-West's Business Report

DOCUMENTS ATTACHED TO
THE NOTICE OF THE 21ST ORDINARY GENERAL MEETING OF SHAREHOLDERS

(from April 1, 2007 to March 31, 2008)

West Japan Railway Company

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To Our Shareholders:

We should like to thank you, our shareholders, for your support to our business activities.

On April 25, 2005, the Company caused a grave accident between Tsukaguchi and Amagasaki on the Fukuchiyama Line, claiming the lives of 106 passengers and injuring more than 500 passengers.

We now again pray for all the victims of the accident and would like to express our sincerest apology to the bereaved family. We would also like to express our deepest sympathy and sincerest apology to the wounded passengers and wish them to recover as soon as possible.

We would like to express our sincerest apology to our customers, our shareholders and the residents of the affected area for causing great anxiety and trouble.

Currently, we have steadily implemented various measures to enhance safety and also exerted our efforts to "build a corporate culture of placing first priority on safety" in accordance with our "Corporate Philosophy" and "Safety Charter".

On June 28, 2007, a report on the investigation of the railway accident on the Fukuchiyama Line was publicized by the Aircraft and Railway Accidents Investigation Commission, which made various remarks, including "proposals" and "opinions" therein. We have taken the report with utmost seriousness, and decided to deal with such remarks quickly and implemented improvement measures.

Additionally, to further improve our safety measures, we formulated a "Basic Safety Plan" on April 1, 2008. Under the new Basic Safety Plan, in combination with our previous measures, we will promote measures to realize greater safety and reform our corporate culture.

Never forgetting the accident and strongly keeping in mind that we are in charge of guarding the invaluable lives of many passengers, we will place top priority on safety at all times and exert our all-out efforts to provide safe and reliable transportation services.

Through these efforts, we will prove worthy of our shareholders' trust. We cordially seek the continued understanding and support of our shareholders.

May 2008

Masao Yamazaki
President and Representative Director

BUSINESS REPORT FOR THE 21ST FISCAL YEAR

For the period from April 1, 2007 to March 31, 2008

I. Matters concerning the situations of West Japan Railway Group (the "Group"):

1. Business trends and achievements:

(1) General developments and results of business activities

On April 25, 2005, the Company caused a very grave accident to occur between Tsukaguchi and Amagasaki on the Fukuchiyama Line and 106 lives were claimed and more than 500 passengers were injured. The Company has since continued its all-out efforts to respond to the bereaved and the victims, and engaged in holding memorial ceremonies commemorating the victims and debriefing sessions on the report on the investigation of the accident by the Aircraft and Railway Accidents Investigation Commission, among other things.

Based on the "Corporate Philosophy" and "Safety Charter" instituted in March 2006, the Company has exerted its efforts to "build a corporate culture of placing top priority on safety" as set in its Group's medium-term management targets. Specifically, for the purpose of safety enhancement, its greatest issue, the Company has commenced to implement all measures in its software and hardware infrastructures as listed in the "Safety Enhancement Plan" and steadily carried out many of them. The Company also has exerted its efforts to establish a safety management system based on the "Railway Safety Management Manual" instituted in accordance with the amended Railway Business Law of Japan.

On June 28, 2007, a report on the investigation of the train accident concerning the Fukuchiyama Line train accident was publicized by the Aircraft and Railway Accidents Investigation Commission, which made various remarks about the causes of the accident, as well as the Company's railway operations in general. The Company has taken the report with utmost seriousness and promoted improvement measures in response sincerely and swiftly to various remarks, including "proposals" and "opinions" stated therein.

On the momentum of the publication of the investigation report, the Company has commenced to formulate a new safety plan. In September 2007, the Company instituted an "An Advisory Panel for Safety Promotion" consisting of safety experts, which gave recommendations on the direction of safety enhancement measures in the future. Accordingly, the Company has formulated a "Basic Safety Plan" for five years commencing in April 2008. The Company also has instituted a "An Advisory Panel for Reform of Corporate Culture" consisting of third-party experts to promote measures to reform its corporate culture and corporate climate covering the mind-set of all officers and employees and business operations in general.

In addition, to formulate a unilateral planning and operating system for the Shinkansen railway operations, the Company has established a "Shinkansen Supervising

Department" under the Railway Operations Headquarters, as well as a new "Shinkansen Management Division" with the functions of a branch, to strengthen the functions of its railway operations and other business divisions.

Thus, the Company has exerted its all-out efforts to promote the enhancement of safety steadily in the railway operations, its core business, and in other businesses of the Group, implemented various measures by exploiting their respective characteristics and made effective use of their assets.

As a result of these efforts, on a consolidated basis, operating revenues for the fiscal year under review amounted to ¥1,290.1 billion, up 2.2% from the previous fiscal year, while operating income amounted to ¥137.4 billion, up 1.5%. Recurring profit and net income (after income taxes) totaled ¥108.8 billion, up 4.5%, and ¥57.7 billion, up 1.6%, respectively.

(2) Individual developments and results of business activities by segment

<Transportation business>

In the railway operations, the Company has implemented the Safety Enhancement Plan and other measures intensively to establish a corporate culture that places top priority on safety. To be specific, the Company has continued to hold "safety meetings" at which its officers can exchange opinions with its employees in the field and implement measures with the aim of becoming the "The Only-One Corporate Group that Rigorously Performs Safety Checks by Pointing and Call". In addition, the term of "accident origins", or reports from the employees in the field, has been renamed into "safety reports" from the perspective of further fostering a culture that encourages reporting. With regard to hardware infrastructures, the Company has installed additional ATS-P systems, improved the safety of railway crossings, built additional train proximity warning devices, introduced urgent advance earthquake announcement systems, built additional anemometers and accelerated quake-proof reinforcement works of the columns of its elevated bridges, among other things. Furthermore, to seriously ponder the gravity of the accident in the future and teach lessons from the accident systematically, the Company has improved safety training by utilizing its "Tetsudo Anzen Kodokan (Library to Think and Act for Railway Safety)" established in April 2007 and also introduced "confirmation conversation" as a means to prevent mistakes arising in conversation. Furthermore, the Company has instituted a committee for the prevention of transport disorder arising from construction works to steadily promote measures to prevent the recurrence of accidents and conducted general train-accident drills to enhance its capabilities to rescue passengers and respond to the occurrence of an accident.

With regard to transportation, as to the Sanyo Shinkansen Line services, the Company introduced new N700 series trains in July 2007 and commenced to operate an N700 series "Nozomi" train for each hour between Tokyo to and from Hakata and raise the frequency of "Nozomi" trains between Tokyo and Hiroshima in March 2008. As to the conventional railway lines, upon the revision of the timetables in March 2008, the Company opened part of the "Osaka Higashi Line" between Hanaten and Kyuhoji, raised the frequency of through rapid trains bound for Osaka on the Hanwa Line and opened new stations to further enhance convenience.

With regard to marketing activities, the Company has proactively spread basic information on the Sanyo Shinkansen Line services, including the content of the revised timetable, the comfort of N700 series trains, the raised frequency, the convenience of the "Express Reservations" service and the price edge, to promote the utilization of its services. In September 2007, the Company introduced "ICOCA" in the areas of Okayama and Hiroshima and commenced the mutual utilization of "ICOCA" and "TOICA" of Central Japan Railway Company, or JR-Tokai in March 2008. Furthermore, the Company has engaged in sales promotion of the "DISCOVER WEST Campaign" and other campaigns jointly with the relevant local areas, travel agencies and other JR companies to create tourist demand.

With regard to passenger services, the Company has exerted its efforts to make its railway system more passenger-friendly by adding more "Green Ticket Vending Machines", installing more elevators, escalators and other barrier-free equipment, introducing "women-only spaces" to some express trains, renovating the "JR *Odekake* Net" and providing information on the scheduling of trains by sending texts to passengers' cellular phones, among others. The Company has also installed more automatic external defibrillators (AEDs) and endeavored to familiarize emergency buttons on its platforms, in the trains and at railway crossings in the event of emergency situations.

With regard to research and development, the Company has promoted researches helpful to enhancing safety, including research for effective basic actions, from the perspective of human factors at its Safety Research Institute. With regard to new technological development, the Company has placed emphasis on ensuring safety and enhancing services and implemented on a trial basis GPS-mounted train proximity warning devices, which are backup systems to prevent accidents in which workers are struck by trains.

With regard to environmental matters, the Company has exerted its efforts to establish an environment management system and also spread information by giving publicity of its "earth-conscious railway". The Company has won an "award of the Minister of Environment for activities for the prevention of global warming" for the fiscal 2007 for its N700 series Shinkansen trains.

With regard to ferry services, the Company has exerted its efforts to establish a safety management system in accordance with its "Ferry Safety Management Manual".

With regard to bus business, the Group has equipped its vehicles with extra safety devices and gave more intensive education and training to its employees to establish a safer transportation system. In addition, the Group has exerted its efforts to open new routes, including the one between Kobe and Shirahama, to meet various customer needs.

As a result, operating revenues from the transportation business amounted to ¥877.8 billion, up 1.5% from the previous fiscal year and operating income amounted to ¥97.4 billion, up 0.2%.

<Sales of goods and food services>

The Group has continued its efforts to make its stations more attractive by opening "Sun Festa Okayama" in the Okayama station and "Shin-Kobe Entrée Marche" in the Shin-Kobe station, as well as new self-service kiosks. Additionally, the Group has remodeled the men's floor of "JR Kyoto Isetan" upon the tenth anniversary of the Kyoto Station Building and opened a new in-station commercial establishment "SUVACO JR KYOTO ISETAN" in the north-south free passage of the Kyoto station to increase revenues.

As a result, operating revenues from the sales of goods and food services amounted to ¥255.5 billion, up 1.3% from the previous fiscal year and operating income amounted to ¥5.2 billion, up 4.3%.

<Real estate business>

The Group has opened a "JR Kyoto Station NK Building" with a mass consumer-electronics retailer as its tenant in the Kyoto station, a "Kanazawa Station Nishiguchi Building" in the Kanazawa station and "SUN STATION TERRACE FUKUYAMA" under the elevated tracks of the Fukuyama station. Thus, the Group has promoted development of its station premises and surrounding properties. With regard to the Osaka station development project, the Group has steadily promoted the plan to construct the New North Building and make extensions to the ACTY Osaka Building. It also has aggressively continued to promote sales of condominium apartments on its former vacant lots of residence for its employees to make more effective use of its assets.

As a result, operating revenues from the real estate business amounted to ¥90.6 billion, up 19.2% from the previous fiscal year and operating income amounted to ¥24.6 billion, up 16.2%.

<Other businesses>

As to the travel agency business, the Group has conducted marketing activities by making use of its newly launched "New Domestic-Focused System". The Group has also formulated a "Nippon Travel Agency Group Medium-Term Business Plan (Fiscal Year 2008 to Fiscal Year 2010)" with the policies of stable growth in its key business area and the shifting of its management resources to growth areas. As to the hotel business, the Group has exerted its efforts on sales promotional activities by refurbishing guest rooms and eating and drinking establishments and launching various events. With regard to "ICOCA electronic money", the Group has commenced its services in the areas of Okayama and Hiroshima and its mutual utilization with "Suica" of East Japan Railway Company, or JR-East and also exerted its efforts to make it available at more stores downtown and in the station premises.

As a result, operating revenues from other businesses in the aggregate amounted to ¥304.9 billion, up 1.6% from the previous fiscal year and operating income amounted to ¥11.0 billion, down 11.8%.

2. Capital expenditure

During the fiscal year under review, the Group made capital investments by placing the full weight of its effort on enhancing safety, including the installation of additional ATS-P systems on its rail tracks. The Group also made investments to improve services and profitability and build up its transportation infrastructures, among other things.

The investments totaled ¥224.5 billion.

A. Major projects completed during the fiscal year under review are as follows:

- Construction to install additional anemometers.
- Construction to build new stations ("Shimamoto" on the JR Kyoto Line, "Suma Kaihinkoen" on the JR Kobe Line, "Harima-Katsuhara", "Nishigawara" and "Waki" on the Sanyo Main Line and "Kajikuri-Godaichi" on the San-in Main Line).
- Construction to renovate the station premises of the Tennoji station and the Shin-Imamiya station.
- Construction to introduce automatic ticket gate and ICOCA card systems in the areas of Okayama and Hiroshima.
- Construction of access facilities accompanying the construction to build the Osaka Outer Loop Line (between Hanaten and Kyuhoji on the Osaka Higashi Line).
- Construction to build new rolling stock (Shinkansen: 128 railcars, conventional railway lines: 132 railcars).

B. Major projects under construction as of the end of the fiscal year under review are as follows:

- Extended construction to install ATS-P systems on the relevant lines.
- Construction to elevate the tracks near the Himeji station on the JR Kobe Line and near the Nara station on the Yamatoji Line.
- Construction to introduce traffic control systems to the Osaka Loop Line and the Yamatoji Line.
- Construction to build a new station (one on the JR Kyoto Line).
- Construction to renovate the Osaka station of the JR Kyoto and JR Kobe Lines and to develop the New North Building.
- Construction to renovate the Okayama station of the Sanyo Main Line.
- Construction to improve transportation of the Sagano Line (construction of a double line between Kyoto and Sonobe).
- Construction to improve transportation of the Kishin Line.
- Construction to improve facilities associated with the extension of the Kyushu Shinkansen Line to Hakata.
- Construction to build new rolling stock (Shinkansen: 72 railcars, conventional railway lines: 72 railcars).

3. Fund-raising

The Group borrowed ¥29.9 billion in domestic straight bonds and ¥26.3 billion in long-term debt, which were used for debt redemption and capital expenditure.

4. Issues to be addressed

On April 25, 2005, the Company caused a very grave accident to occur between Tsukaguchi and Amagasaki on the Fukuchiyama Line and consequently, seriously eroded the confidence of its customers and the society which it had been building up.

We will exert our all-out efforts to make a more detailed response to the bereaved and the victims by listening to their opinions and requests in all sincerity.

We understand that it is the first and foremost for management to place top priority on safety at all times and restore the confidence of our customers and the society and that we must build up a firm foundation for the Group as a whole to persistently develop in the future while offering useful services to the society and increasing profitability, based on the provision of safe, trustworthy high-quality transportation services.

With this basic understanding, we have formulated a new "Basic Safety Plan" and "JR-West Group's Medium-Term Management Plan" for the fiscal years ending March 31, 2013 to materialize our "Corporate Philosophy" and "Safety Charter" instituted in 2006. We will continue to exert every possible effort to "build a corporate culture of placing top priority on safety".

With regard to safety enhancement, based on the "Basic Safety Plan", we will introduce risk assessments to "build a corporate system to ensure no accidents to produce casualties among our customers and no serious labor accidents to our employees" and review our traditional concepts of accidents to conduct analyses on and implement measures against safety concerns more extensively. Additionally, we will implement measures never to forget the train accident on the Fukuchiyama Line, raise safety awareness and meet the requirements forming the basis of our safety management system.

With regard to the promotion of "reform" of our corporate culture and climate, which is inseparably related to the safety enhancement measures, we will create a corporate climate in which we are "safe" and "trustworthy" and "think and act for ourselves", based on the recommendations by the "An Advisory Panel for Reform of Corporate Culture".

With regard to the railway operations, in accordance with the "Railway Safety Management Manual" instituted in October 2006, we have been improving our safety management system. Based on the "Basic Safety Plan", we will also exert our efforts to establish safety management based on risk assessments and implement measures to meet various requirements for safety, including the development of technological capabilities, improvement of communications and procurement and development of human resources. In addition, we will make planned investments to maintain and renovate our hardware infrastructures, as well as investments in the enhancement of safety of our railways and

disaster-prevention measures, including the installation of additional ATS-P systems, measures to prevent excessive speeding on the down grade and anti-earthquake measures by quake-proof reinforcement works of the columns of its elevated bridges.

With regard to transportation and marketing activities, under the circumstances where competition is intensifying, we will promote measures to accelerate the use of our Shinkansen Line services by creating a Shinkansen Line timetable that may make the most of the effect of the introduction of N700 series, providing comfortable and highly reliable transportation services according to the uses and purposes of passengers and advertising its earth-consciousness. In addition, we will steadily promote various projects in railway operations, including measures for the extension of the Kyushu Shinkansen Line to Hakata in the spring of 2011, which includes mutual through services of the Kyushu Shinkansen Line and the Sanyo Shinkansen Line. Furthermore, we will implement measures to raise the level of services in general, including front-desk services of our employees, stations and train equipment and install displays in the stations to provide information on train operations in the event of any operational disorder. Simultaneously, we will aggressively promote measures that may satisfy passengers by installing barrier-free facilities in collaboration with local authorities and otherwise creating customer-friendly stations. In addition, to further enhance the convenience of our sales channels, we will endeavor to further promote the use of our "Express Reservations" service and extend our "EX-IC (Express IC)" service for the Sanyo Shinkansen Line, which service will commence in the summer of 2009.

With regard to sales of goods and food services and real estate business, to enhance the value of our railway belts, we will make our stations more convenient in full coordination of the railway operations, develop surrounding areas of the stations in collaboration with local authorities and communities and promote beautification and activation of the premises under the elevated tracks. We will also continue steadily implementing our Osaka station development projects, including preparations for the opening of a new department store by West Japan Railway Isetan Limited. In addition, we will continue our efforts to increase member stores of "ICOCA electronic money" to enhance the convenience of "ICOCA".

With regard to our corporate social responsibility (CSR), while recognizing anew the importance thereof, we will further carry out our CSR with the CSR Promotion Committee acting as a central figure, and also endeavor to establish proper administration in our whole business activities with our Compliance Committee and Risk Management Committee acting as central figures. In addition, we will further improve our internal control functions while properly operating our systems of evaluations and audits of internal control over financial reporting, which will become effective as from the year commencing on April 1, 2008.

We cordially seek the continued understanding and support of our shareholders.

5. Assets and profits for the most recent three fiscal years

| Item | 18th April 1, 2004 - Mar. 31, 2005 | 19th April 1, 2005 - Mar. 31, 2006 | 20th April 1, 2006 - Mar. 31, 2007 | 21st (current year) April 1, 2007 - Mar. 31, 2008 |
|-------------------------------------|--|--|--|--|
| Operating revenues (billion yen) | 1,220.8 | 1,240.0 | 1,262.9 | 1,290.1 |
| Recurring profit (billion yen) | 95.9 | 102.1 | 104.1 | 108.8 |
| Net income (billion yen) | 58.9 | 46.5 | 56.7 | 57.7 |
| Net income per share (yen) | 29,462 | 23,281 | 28,415 | 28,954 |
| Total assets (billion yen) | 2,364.3 | 2,355.9 | 2,401.6 | 2,462.8 |
| Net assets (billion yen) | 524.3 | 564.2 | 637.8 | 670.8 |

6. State of major subsidiaries, etc.

(1) State of major subsidiaries:

| Name | Paid-in capital (million yen) | Equity ownership by the Company (%) | Main business |
|---|----------------------------------|--|----------------------|
| West Japan Railway Hotel Development Limited | 18,000 | 100.0 | Hotels |
| West Japan Railway Isetan Limited | 6,000 | 66.7 | Department store |
| Kyoto Station Building Development Co., Ltd. | 6,000 | 61.4 (61.9) | Real estate leasing |
| Nippon Travel Agency Co., Ltd. | 4,000 | 79.8 | Travel agency |
| Chugoku JR Bus Company | 2,840 | 100.0 | Bus services |
| West Japan Railway Daily Service Net Company | 2,300 | 91.5 | Retail sales |
| West Japan JR Bus Company | 2,110 | 100.0 | Bus services |
| Osaka Terminal Building Company | 2,000 | 57.4 | Real estate leasing |
| Tennoji Terminal Building Co., Ltd. | 1,800 | 61.7 | Real estate leasing |
| JR-West Japan Real Estate & Development Company | 620 | 100.0 | Real estate leasing |
| Japan Railway West Trading Company | 200 | 67.0 (100.0) | Wholesales |
| JR West Japan Communications Company | 200 | 65.0 (100.0) | Advertising services |

| Name | Paid-in capital (million yen) | Equity ownership by the Company (%) | Main business |
|--|----------------------------------|--|-------------------------------------|
| WEST JAPAN RAILWAY TECHNOS CORPORATION | 161 | 62.7 | Maintenance for railcar facilities |
| West Japan Electric System Co., Ltd. | 81 | 51.5 | Railway-related electric facilities |

(Note) The percentages in the parentheses represent the Company's equity ownership including shares held indirectly through the subsidiaries of the Company.

(2) State of major affiliated companies:

| Name | Paid-in capital (million yen) | Equity ownership by the Company (%) | Main business |
|--------------------------------|----------------------------------|---|------------------|
| Kansai Rapid Railway Co., Ltd. | 75,280 | 23.9 (24.1) | Railway services |
| Daitetsu Kogyo Co., Ltd. | 1,232 | 36.9 | Construction |
| Kosei Construction Co., Ltd. | 780 | 20.3 | Construction |

(Note) The percentages in the parentheses represent the Company's equity ownership including shares held indirectly through the subsidiaries of the Company.

7. Major businesses and offices

The major businesses the Group engages in and the offices therefor are as follows:

(1) Transportation business

In addition to the railway services, the Group engages in bus services and other services.

- The Company (Kita-ku, Osaka-City)
- Chugoku JR Bus Company (Minami-ku, Hiroshima-City)
- West Japan JR Bus Company (Konohana-ku, Osaka-City)

The outline of the railway services is as follows:

| Offices | Route length | | | Number of stations | Number of rolling stock cars |
|--------------------------------------|--------------|----------------------------|-------------------|--------------------|------------------------------|
| | Shinkansen | Conventional railway lines | Total | | |
| Shinkansen Administration Department | km 644.0 | km 8.5 | km 652.5 | 3 | 915 |
| Kanazawa Branch | - | (28.0) 637.0 | (28.0) 637.0 | 164 | 606 |
| Kyoto Branch | - | 314.0 | 314.0 | 99 | 561 |
| Osaka Branch | - | 403.3 | 403.3 | 154 | 1,475 |
| Wakayama Branch | - | 282.5 | 282.5 | 86 | 68 |
| Kobe Branch | - | 236.7 | 236.7 | 79 | 1,742 |
| Fukuchiyama Branch | - | 331.7 | 331.7 | 71 | 163 |
| Okayama Branch | - | 601.0 | 601.0 | 154 | 396 |
| Yonago Branch | - | 605.7 | 605.7 | 154 | 249 |
| Hiroshima Branch | - | 959.3 | 959.3 | 257 | 608 |
| Total | 644.0 | (28.0) 4,380.0 | (28.0) 5,024.0 | 1,221 | 6,783 |

(Note) The kilometers in the parentheses are shown separately for the Category III railway services (Nanao Line (between Wakura-Onsen and Anamizu)). The conventional railway lines of Osaka Branch include 28.6 kilometers of the Category II railway services (Kansai-Airport Line (between Rinku-Town and Kansai-Airport), JR Tozai Line (between Kyobashi and Amagasaki) and Osaka Higashi Line (between Hanaten and Kyuhoji)). The other lines are all for the Category I railway services.

Category I railway services: Transportation services provided by using its own railway tracks

Category II railway services: Transportation services provided by leasing railway tracks from other operators

Category III railway services: Possession of railway tracks that are used by other operators for transportation services

(2) Sales of goods and food services

The Group engages in department store business in the Kyoto Station Building and sales of goods and food services in major stations.

- West Japan Railway Isetan Limited (Shimogyo-ku, Kyoto-City)
- West Japan Railway Daily Service Net Company (Kita-ku, Osaka-City)
- Japan Railway West Trading Company (Suita-City, Osaka-Prefecture)

(3) Real estate business

The Group engages in sales and lease of real estate by use of its own real estate and operations of shopping centers.

- Kyoto Station Building Development Co., Ltd. (Shimogyo-ku, Kyoto-City)
- Osaka Terminal Building Company (Kita-ku, Osaka-City)
- Tennoji Terminal Building Co., Ltd. (Tennoji-ku, Osaka-City)
- JR-West Japan Real Estate & Development Company (Amagasaki-City, Hyogo-Prefecture)

(4) Other businesses

The Group engages in hotel and advertising businesses by use of its own properties, travel agency business that has highly synergistic effects with its transportation services and various construction and engineering works.

- West Japan Railway Hotel Development Limited (Shimogyo-ku, Kyoto-City)
- Nippon Travel Agency Co., Ltd. (Minato-ku, Tokyo)
- JR West Japan Communications Company (Kita-ku, Osaka-City)
- WEST JAPAN RAILWAY TECHNOS CORPORATION (Amagasaki-City, Hyogo-Prefecture)
- West Japan Electric System Co., Ltd. (Yodogawa-ku, Osaka-City)

8. State of employees

| Classification by business segment | Number of employees (increase or decrease compared with the end of the previous fiscal year) |
|------------------------------------|--|
| Transportation business | 26,408 (+18) |
| Sales of goods and food services | 2,111 (+30) |
| Real estate business | 779 (+16) |
| Other businesses | 14,723 (+603) |
| Total | 44,021 (+667) |

(Note) The number of employees represents the number of those actually at work in the respective segments.

9. Major lenders

| Lender | Debt payable (billion yen) |
|---|-------------------------------|
| Development Bank of Japan | 70.4 |
| Mizuho Corporate Bank, Ltd. | 35.1 |
| Sumitomo Mitsui Banking Corporation | 33.9 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 33.5 |
| The Sumitomo Trust and Banking Company, Limited | 13.0 |
| Resona Bank, Limited | 11.8 |

II. Matters concerning shares:

1. Total number of issuable shares: 8,000,000 shares
2. Total number of issued shares: 2,000,000 shares
(Note) 17,434 shares of treasury stock are included in the total number of issued shares.
3. Number of shareholders: 155,128 persons
4. Major shareholders:

| Name | Number of shares (shares) | Ratio to total issued shares (%) |
|---|------------------------------|--|
| Japan Trustee Services Bank, Ltd. (Trust Unit) | 114,067 | 5.75 |
| The Master Trust Bank of Japan, Ltd. (Trust Unit) | 105,421 | 5.32 |
| Mizuho Corporate Bank, Ltd. | 69,000 | 3.48 |
| Sumitomo Mitsui Banking Corporation | 64,000 | 3.23 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 63,000 | 3.18 |
| JR-West Employee Stock-Sharing Plan | 38,799 | 1.96 |
| State Street Bank and Trust Company 505103 | 38,172 | 1.93 |
| Nippon Life Insurance Company | 35,000 | 1.77 |
| The Sumitomo Trust and Banking Company, Limited | 32,000 | 1.61 |
| The Dai-Ichi Mutual Life Insurance Company | 30,000 | 1.51 |

- (Notes)
1. As of March 31, 2008, no shareholder had shares in the number representing one-tenth or more of the total number of issued shares (excluding shares of treasury stock) of the Company.
 2. For the purpose of computing the ratios to total issued shares, 17,434 shares of treasury stock are excluded from the total number of issued shares of the Company.

5. Acquisition by the Company of its own shares:

To allow management to carry out capital policies with agility in response to business conditions, the Company, in accordance with the resolution adopted at the meeting of its Board of Directors held on October 30, 2007, purchased 17,434 shares of common stock of the Company for the aggregate purchase prices of ¥9,999,595,000 for the period from October 31, 2007 through November 16, 2007.

III. Matters concerning corporate officers:

1. Names of officers, etc.:

| Title | Name | Position |
|--|-------------------|--|
| Chairman | Noritaka Kurauchi | Advisor of Sumitomo Electric Industries, Ltd. |
| Director | Yoshio Tateishi | Chairman and Representative Director of Omron Corporation and Chairman of the Kyoto Chamber of Commerce and Industry |
| Director | Akio Nomura | Chairman and Representative Director of Osaka Gas Co., Ltd. and Chairman of the Osaka Chamber of Commerce and Industry |
| Director | Satoru Sone | Guest Professor and Head of Extension Center, Kogakuin University |
| Director | Tadashi Ishikawa | Representative Partner of Oh-Ebashi LPC & Partners |
| President and Representative Director | Masao Yamazaki | |
| Executive Vice President and Representative Director | Kazuaki Maruo | Provides general assistance to President. In charge of Railway Operations Headquarters and Safety Research Institute, for safety enhancement. |
| Executive Vice President and Representative Director | Takayuki Sasaki | Provides general assistance to President. In charge of IT Development Headquarters, Secretary Office, Corporate Communication Department, Inquiry & Auditing Department, Finance Department and Business Development Headquarters. |

| Title | Name | Position |
|-----------------------------|--------------------|--|
| Director | Ryuichiro Tsuchiya | In charge of Supporting Headquarters for the Victims of the Derailment Accident on the Fukuchiyama Line of the Company, Deliberation Department of the Derailment Accident on the Fukuchiyama Line and General Affairs Department. |
| Director | Takashi Kondo | In charge of Construction Department and Business Development Headquarters. |
| Director | Seiji Manabe | In charge of Corporate Planning Headquarters, Personnel Department and Tokyo Headquarters. |
| Director | Naoki Nishikawa | In charge of Safety Promotion Department, Railway Operations Headquarters, for safety enhancement. |
| Director | Koichi Inoue | In charge of Marketing Division, Railway Operations Headquarters. |
| Full-time Corporate Auditor | Noboru Koide | |
| Full-time Corporate Auditor | Tsutomu Iwasaki | |
| Corporate Auditor | Kazuo Yoshida | Dean of Business Administration Research, Graduate School of Kyoto University |
| Corporate Auditor | Ikuo Uno | Chairman and Representative Director of Nippon Life Insurance Company |

- (Notes)
1. Chairman Noritaka Kurauchi, Directors Yoshio Tateishi, Akio Nomura, Satoru Sone and Tadashi Ishikawa are external directors as provided for in Article 2, item 15 of the Corporation Law of Japan.
 2. Full-time Corporate Auditor Tsutomu Iwasaki, Corporate Auditors Kazuo Yoshida and Ikuo Uno are external auditors as provided for in Article 2, item 16 of the Corporation Law of Japan.

2. Total amount of remuneration, etc. for officers

| Classification | Number | Amount |
|-------------------|--------|--------------|
| Director | 13 | ¥340 million |
| Corporate Auditor | 4 | ¥74 million |
| Total | 17 | ¥415 million |

(Note) The total amount of remuneration, etc. for the external officers for the fiscal year under review was ¥95 million.

3. Matters concerning external officers

(1) State of the external officers' concurrent holding of offices of executive officers for other companies

External Director Mr. Yoshio Tateishi, acting as Chairman and Representative Director of OMRON Corporation, and External Director Mr. Akio Nomura, acting as Chairman and Representative Director of Osaka Gas Co., Ltd., have business dealings with the Company, respectively. External Corporate Auditor Mr. Ikuo Uno, acting as Chairman and Representative Director of Nippon Life Insurance Company, has business dealings with the Company.

External Director Mr. Noritaka Kurauchi has assumed the office of external director of Nippon Sheet Glass Co., Ltd.; External Director Mr. Yoshio Tateishi has assumed the office of external director of Dainippon Screen MFG. Co., Ltd.; and External Director Mr. Tadashi Ishikawa has assumed the office of external corporate auditor of Takeda Pharmaceutical Company Limited. External Corporate Auditor Mr. Ikuo Uno has assumed the office of external director of Matsushita Electric Industrial Co., Ltd. and Fuji Kyuko Co., Ltd., as well as the office of external corporate auditor of Odakyu Electric Railway Co., Ltd., Tohoku Electric Power Company, Incorporated and Sumitomo Mitsui Financial Group, Inc.

(2) Major activities of the external officers during the fiscal year under review

| Classification | Name | Major activities |
|--------------------|-------------------|---|
| External Directors | Noritaka Kurauchi | Mr. Kurauchi attended all of the 12 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive. |
| | Yoshio Tateishi | Mr. Tateishi attended nine of the 12 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive. |

| Classification | Name | Major activities |
|-----------------------------|------------------|--|
| | Akio Nomura | Mr. Nomura attended ten of the 12 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive. |
| | Satoru Sone | Mr. Sone attended all of the 12 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an academic expert. |
| | Tadashi Ishikawa | Mr. Ishikawa attended nine of the 12 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an attorney at law. |
| External Corporate Auditors | Tsutomu Iwasaki | Mr. Iwasaki attended all of the 12 sessions of the Board of Directors and all of the 16 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally with his wide experience in public administration. |
| | Kazuo Yoshida | Mr. Yoshida attended nine of the 12 sessions of the Board of Directors and 14 of the 16 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an academic expert. |
| | Ikuo Uno | Mr. Uno attended eight of the 12 sessions of the Board of Directors and 14 of the 16 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive. |

IV. Matters concerning account auditors:

1. Name of the account auditors:

Ernst & Young ShinNihon

2. Amount of remuneration, etc. for the account auditors:

- (1) Amount of remuneration, etc. payable for the fiscal year under review: ¥120 million
- (2) Total amount of money and other proprietary benefits payable by the Company and its subsidiaries: ¥241 million

(Notes) 1. The amount of remuneration payable to the account auditors for their audits under the Corporation Law of Japan and the amount of remuneration payable for their audits under the Financial Instruments and Exchange Law of Japan are not specifically separated in the audit contract between the Company and Ernst & Young ShinNihon and cannot be separated practically. Hence, such amounts are stated collectively.

2. The Company has entrusted Ernst & Young ShinNihon with, and paid remuneration for, advisory services on the establishment and execution of internal control over financial reporting, which services are not covered by Article 2, paragraph 1 of the Certified Public Accountant Law of Japan.

3. Policy on determination of dismissal and non-reappointment:

In the event that the account auditors are considered to fall under any of the items of Article 340, paragraph 1 of the Corporation Law of Japan or otherwise it is considered necessary by the Company, the Company shall determine to dismiss or not to reappoint the account auditors.

V. Systems to secure the properness of business activities:

The matters concerning the establishment of the systems to secure the execution by the Directors of their duties to comply with laws or ordinances and the Articles of Incorporation and other systems to secure the properness of business activities of the Company are described below:

1. Systems to secure the execution by the Directors and employees of their duties to comply with laws or ordinances and the Articles of Incorporation

The Board of Directors of the Company shall meet once every month, in principle, to deliberate on important matters for management, report the development of execution of business on a timely and appropriate manner and monitor the execution by the Directors of

their duties mutually. In addition, to ensure the transparency and fairness of corporate management, the Company has invited officers with excellent management prowess and broad knowledge from outside of the Company to give various guidance and proposals on management of the Company and conduct audits from objective perspectives since its incorporation. As from June 2006, the Company shall make a clear distinction between Directors to engage exclusively in monitoring and supervision and Directors to execute business (concurrently serving as Executive Officers) as well and increase the number of external Directors, appoint the "Chairman", who shall act as chairman of the Board of Directors, from among the external Directors and improve the system of distributing information to the external Directors to strengthen its functions of monitoring and supervision of corporate management.

With regard to compliance with law, the "Compliance Committee", with the President acting as chairman, shall, in accordance with the "Corporate Philosophy" instituted in April 2006, deliberate on and determine the formulation of annual policies on compliance and the establishment of internal systems and rules therefor, keep track of risks and devise necessary measures therefor, promote various training and educational campaigns, and examine and evaluate the schemes for ensuring compliance. In addition, the Company shall familiarize all officers and employees with the "Code of Ethics for Employees" and the "Ethics Office" as consultative office to further ensure compliance with law and corporate ethics. With regard to the execution by the Directors and employees of their duties, the Company shall ensure transparency thereof by devising schemes that may allow checking functions, including a system of circulating requests for managerial decision, as well as various committees from time to time, and make the Inquiry & Auditing Department, responsible internal audits, audit business of the Company in general from the perspectives of compliance with laws or ordinances and regulations.

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

Through these measures, the Company shall endeavor to improve its systems to ensure compliance with law or otherwise in its business operations in general.

2. Systems concerning storage and management of information on the execution by the Directors of their duties

Pursuant to the document management manuals of the Company, information on the execution by the Directors of their duties shall be prepared, stored and managed properly by the respective sections in charge thereof and shall be made available for inspection by the Directors and Corporate Auditors at all times whenever necessary.

3. Regulations concerning management of exposure to the risk of loss and other systems

Taking seriously that on April 25, 2005, it caused a very grave accident to occur

between Tsukaguchi and Amagasaki on the Fukuchiyama Line in which 106 lives were claimed and more than 500 passengers were injured, and with a resolve never to permit the occurrence of such any accident, the Company shall set the "building of a corporate culture of placing top priority on safety" as its utmost management target and implement measures to complete the target in accordance with its "Corporate Philosophy" and "Safety Charter".

The Company shall steadily implement measures in response to remarks, including "proposals" and "opinions" stated in the report on the investigation of the train accident on the Fukuchiyama Line publicized by the Aircraft and Railway Accidents Investigation Commission in June 2007. The Company shall also steadily promote the "Basic Safety Plan" formulated by taking into consideration the proposals for the direction of safety enhancement measures by the Experts' Council on Safety Promotion, as well as the measures implemented so far, to promote greater safety. Furthermore, the Company shall build a stronger safety management system based on its "Railway Safety Management Manual" instituted in accordance with the amended Railway Business Law of Japan, enforced in October 2006. Additionally, the "Risk Management Committee" with the President acting as chairman shall keep track of risks and critical factors that may have material effects on management of the Company, prepare manuals and deliberate on and determine important policies to respond thereto, prepare to establish a rapid initial response system and implement appropriate measures in the event of any serious crisis, and examine and evaluate the risk management schemes and systems.

Through these efforts, the Company shall build up a system for appropriate risk management in its business activities in general.

4. Systems to secure efficient execution by the Directors of their duties

The Directors in charge of their respective sections shall, based on the general business plan determined by the Board of Directors at the beginning of each fiscal year, execute their duties properly with regard to the measures of the respective sections in accordance with the authority and decision-making rules under the Company's regulations of its organization and execution of business.

The Company has established an Executive Committee consisting of the Representative Directors and Executive Officers of the Company to deliberate on fundamental matters for execution of business, and also introduced a system of executive officers to delegate authorities to the Executive Officers, whereby ensuring stronger functions to supervise the Board of Directors and speedier execution of their duties.

5. Systems to secure the properness of business activities of the corporate group

At its "Compliance Committee" and "Risk Management Committee", the Company shall determine policies on compliance and risk management of the whole Group, and each group company shall take measures to establish committees and regulations, whereby formulating a system for strong compliance and appropriate risk management of the whole Group. In addition, at its "Ethics Office", the Company shall respond to consultations concerning any group company, whereby ensuring strict corporate ethics of the whole Group.

With regard to important managerial matters of the group companies, the Company shall establish a system to allow them to consult with the Company in advance, and the Company shall make its officers assume the offices of directors and corporate auditors of its important group companies to ensure legitimate and effective management of the Group. Furthermore, for the purpose of its internal audits, the Company shall, whenever necessary, determine if laws or ordinances and regulations concerning execution of business of the group companies are observed.

With regard to the "evaluation of internal control over financial reporting", the Company shall promote its group-wide efforts as the business on a consolidated basis is subjected to such evaluation.

6. Matters concerning the employees to assist the Corporate Auditors to execute their duties and their independence from the Directors

The Company has appointed its employees as the Corporate Auditors' staff to engage exclusively in assisting the Corporate Auditors and they shall execute their duties under the orders and instructions of the Corporate Auditors.

The Company shall make their personnel changes and evaluations by taking into consideration the opinions of the Corporate Auditors.

7. System for reports by Directors and employees to the Corporate Auditors and other systems for reporting to the Corporate Auditors

The Directors, Executive Officers and employees shall give to the Corporate Auditors or the Board of Corporate Auditors reports promptly upon the occurrence of any grave accident, any act in violation of any law or ordinance or the Articles of Incorporation or any event that may cause material damage to the Company, as well as reports on the state of performance of internal audits, the particulars of information provided with the "Ethics Office", the particulars of the measures taken by the President's Special Aide, the details of business and problems of each section and such other matters as requested by the Corporate Auditors or the Board of Corporate Auditors from time to time and on a regular basis.

8. Other systems to ensure effective audits by the Corporate Auditors

The Directors of the Company shall formulate systems necessary for the Corporate Auditors to expediently perform audits, including those to allow the Corporate Auditors to attend important meetings, inspect decision documents, cooperate with its internal audit section and account auditors and exchange opinions with the Representative Directors.

In addition, the sections responsible for the business offices of the Company shall coordinate and cooperate with each other to allow the Corporate Auditors to visit the offices to perform effective and efficient audits.

CONSOLIDATED BALANCE SHEET

(As of March 31, 2008)

| <u>ASSETS</u> | (million yen) |
|---|-----------------------------|
| Current assets: | 221,138 |
| Cash and deposits..... | 44,836 |
| Trade notes and accounts receivable..... | 19,139 |
| Railway fares receivable..... | 21,836 |
| Accounts receivable..... | 48,559 |
| Inventories..... | 22,246 |
| Deferred tax assets..... | 19,938 |
| Other current assets..... | 44,917 |
| Less allowance for doubtful accounts..... | (335) |
| Fixed assets: | 2,241,630 |
| Tangible fixed assets: | 2,028,639 |
| Buildings and structures..... | 979,074 |
| Machinery, equipment and transport equipment..... | 282,599 |
| Land..... | 657,469 |
| Construction in progress..... | 81,301 |
| Other tangible fixed assets..... | 28,195 |
| Intangible fixed assets: | 20,017 |
| Investments and other assets: | 192,973 |
| Investment in securities..... | 60,038 |
| Deferred tax assets..... | 109,035 |
| Other investments and other assets..... | 24,897 |
| Less allowance for doubtful accounts..... | (998) |
| Deferred assets | 62 |
| TOTAL ASSETS | <u>2,462,831</u> |

(Note) Figures are indicated by discarding fractions of one million yen.

LIABILITIES

| | |
|---|-------------------------|
| Current liabilities: | 578,698 |
| Trade notes and accounts payable..... | 48,109 |
| Short-term borrowings | 13,630 |
| Current portion of bonds | 45,000 |
| Current portion of long-term debt..... | 42,979 |
| Current portion of long-term payables to the acquisition of railway properties..... | 34,598 |
| Current portion of long-term payables..... | 31 |
| Accounts payable | 126,772 |
| Accrued consumption taxes | 3,135 |
| Accrued income tax | 37,589 |
| Railway deposits received..... | 1,560 |
| Deposits..... | 59,171 |
| Prepaid railway fares received | 31,260 |
| Advances received | 66,574 |
| Allowance for bonuses..... | 34,817 |
| Allowance for rewards based on points | 670 |
| Other current liabilities | 32,795 |
| Long-term liabilities: | 1,213,294 |
| Bonds | 234,964 |
| Long-term debt..... | 206,531 |
| Long-term payables to the acquisition of railway properties..... | 392,872 |
| Long-term payables | 285 |
| Deferred tax liabilities..... | 141 |
| Retirement allowances for employees | 257,038 |
| Allowance for quake-proof reinforcement measures..... | 2,222 |
| Allowance for environment and safety measures | 11,466 |
| Allowance for gift certificates yet to be redeemed | 2,667 |
| Other long-term liabilities..... | 105,105 |
| TOTAL LIABILITIES | <u>1,791,993</u> |

NET ASSETS

| | |
|--|-------------------------|
| Shareholders' equity: | 634,022 |
| Common stock | 100,000 |
| Capital surplus | 55,000 |
| Retained earnings..... | 489,366 |
| Treasury stock..... | (10,343) |
| Evaluation and exchange differences, etc.: | 4,647 |
| Evaluation difference on other securities..... | 4,552 |
| Deferred hedge income (loss) | 95 |
| Minority interests | 32,167 |
| TOTAL NET ASSETS | <u>670,838</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>2,462,831</u> |

(Note) Figures are indicated by discarding fractions of one million yen.

CONSOLIDATED STATEMENT OF INCOME

(For the period from April 1, 2007 to March 31, 2008)

(million yen)

| | | |
|---|---------|-----------|
| Operating revenues | | 1,290,190 |
| Operating expenses | | |
| Transportation and other services and cost of sales | 944,207 | |
| Selling, general and administrative expenses | 208,569 | 1,152,777 |
| Operating income | | 137,413 |
| Non-operating income | | |
| Interest and dividend income | 461 | |
| Equity in earnings of affiliates | 1,298 | |
| Other income | 6,158 | 7,918 |
| Non-operating expenses | | |
| Interest expenses | 35,424 | |
| Other expenses | 1,049 | 36,473 |
| Recurring profit | | 108,857 |
| Extraordinary profits: | | |
| Proceeds from construction contract | 25,891 | |
| Gain on sale of fixed assets | 8,097 | |
| Others | 10,685 | 44,675 |
| Extraordinary expenses: | | |
| Loss on reduction entry of proceeds from construction | 24,864 | |
| Others | 27,084 | 51,948 |
| Income before income tax | | 101,584 |
| Corporation, inhabitant and enterprise taxes | | 56,559 |
| Income taxes - deferred | | (14,737) |
| Minority interests | | 2,054 |
| Net income | | 57,707 |

(Note) Figures are indicated by discarding fractions of one million yen.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.

(For the period from April 1, 2007 to March 31, 2008)

(million yen)

| | Shareholders' equity | | | | | Evaluation and exchange differences, etc. | | | Minority interests | Total net assets |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---|-----------------------|---|--------------------|------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Evaluation difference on other securities | Deferred hedge income | Total evaluation and exchange differences, etc. | | |
| Balance as of March 31, 2007 | 100,000 | 55,000 | 443,658 | (327) | 598,331 | 8,864 | 348 | 9,212 | 30,305 | 637,849 |
| Changes during the year: | | | | | | | | | | |
| Distribution of surplus | | | (12,000) | | (12,000) | | | | | (12,000) |
| Net income | | | 57,707 | | 57,707 | | | | | 57,707 |
| Difference due to changes in shareholdings in equity-method affiliates | | | | (16) | (16) | | | | | (16) |
| Acquisition of treasury stock | | | | (9,999) | (9,999) | | | | | (9,999) |
| Changes in items other than shareholders' equity during the year (net) | | | | | | (4,312) | (253) | (4,565) | 1,862 | (2,703) |
| Total changes during the year | - | - | 45,707 | (10,016) | 35,691 | (4,312) | (253) | (4,565) | 1,862 | 32,988 |
| Balance as of March 31, 2008 | 100,000 | 55,000 | 489,366 | (10,343) | 634,022 | 4,552 | 95 | 4,647 | 32,167 | 670,838 |

(Note) Figures are indicated by discarding fractions of one million yen.

Notes to Consolidated Financial Statements

(For the period from April 1, 2007 to March 31, 2008)

(Note) Figures are indicated by discarding fractions of one million yen.

I. Notes on important information constituting the basis of preparation of consolidated financial statements

1. Matters concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 66

The consolidated subsidiaries of the Company are West Japan Railway Hotel Development Limited, West Japan Railway Isetan Limited, Kyoto Station Building Development Co., Ltd., Nippon Travel Agency Co., Ltd., Chugoku JR Bus Company, West Japan Railway Daily Service Net Company, West Japan JR Bus Company, Osaka Terminal Building Company, Tennoji Terminal Building Co., Ltd., JR-West Japan Real Estate & Development Company, Japan Railway West Trading Company, JR West Japan Communications Company, WEST JAPAN RAILWAY TECHNOS CORPORATION, West Japan Electric System Co., Ltd. and 52 others.

As of April 1, 2007, Kure Station Development Co., Ltd. and Chugoku Station Development Co., Ltd. were merged into Chugoku Station Development Co., Ltd., a surviving company, whose name has been changed to Chugoku SC Development Co., Ltd. As of July 1, 2007, the name of West Japan Railway Information System Company was changed to West Japan Railway IT Solutions Company.

(2) The Company has 85 non-consolidated subsidiaries, including Osaka Energy Service Co., Ltd. These companies are excluded from the scope of consolidation, because their aggregate amounts of total assets, net sales, net income or loss (equal to the equity share) and retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.

2. Matters concerning the application of the equity method

(1) The Company has no non-consolidated subsidiary subject to the equity method.

(2) The equity method is applied to the investments in four affiliated companies: Kansai Rapid Railway Co., Ltd., Daitetsu Kogyo Co., Ltd., Kosei Construction Co., Ltd., and Railway Information Systems Co., Ltd.

(3) These 85 non-consolidated subsidiaries and 16 affiliated companies, including Nara Hotel Co., Ltd. are excluded from the scope of the application of the equity method, because their aggregate amounts of net income or loss (equal to the equity share) and

retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.

3. Matters concerning the fiscal years of the consolidated subsidiaries

The date of the closing of accounts of Nippon Travel Agency Co., Ltd. is December 31 of each year and its financial statements as of the date of the closing of accounts are used for the purpose of preparing the consolidated financial statements. Significant transactions up to the date of the closing of consolidated accounts are adequately adjusted for the purpose of consolidation. The date of the closing of accounts of any other consolidated subsidiary is March 31 of each year, which corresponds to the date of the closing of consolidated accounts.

4. Matters concerning the accounting standards

(1) Basis and method of valuation of important assets:

(i) Marketable securities:

Other marketable securities:

Those with market value: At market value, determined by market prices, etc. as of the close of the fiscal year (Revaluation differences are all transferred directly to net assets. Selling costs are determined principally by the moving average method.)

Those without market value: At cost, determined principally by the moving average method

(ii) Inventories:

Goods: At cost, determined principally by the retail inventory method and the latest purchase cost method

Real estate for sale: At cost, determined by the identified cost method

Work in process: At cost, determined principally by the identified cost method

Materials and supplies: At cost, determined principally by the moving average method

The balance sheet values are calculated by the write-down method based on declined margins.

(2) Method of depreciation of important depreciable assets:

(i) Tangible fixed assets:

Tangible fixed assets are depreciated principally by the declining balance method; provided, however, that the replacement cost method is applicable to replacement assets for railway services.

(ii) Intangible fixed assets:

Intangible fixed assets are depreciated by the straight-line method. Software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).

(iii) Long-term prepaid expenses:

Long-term prepaid expenses are written off in equal amounts.

(3) Method of treatment of deferred assets:

Bond issuing expenses are all treated as expenses upon payment thereof.

Development expenses of the consolidated subsidiaries are amortized regularly over their respective effective periods.

(4) Basis for accounting for important allowances and accrued liabilities:

(i) Allowance for doubtful accounts:

To meet losses from loan default, the Group sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.

(ii) Allowance for bonuses:

To meet the payment of bonuses to employees, the Group sets aside an estimated amount of bonuses to be paid for each current fiscal year.

(iii) Retirement allowances for employees:

To meet the payment of retirement benefits to employees, the Group provides an amount, based on estimated retirement benefit obligations and pension plan assets as of the close of each current fiscal year.

The difference of ¥321,242 million upon the change of accounting standards for employee retirement benefits is treated as expenses, and is amortized principally on

a straight-line basis for a period of 10 years.

Actuarial differences are treated principally as expenses from the fiscal year next following the fiscal year when such differences occur, and are amortized principally on a straight-line basis for a specific period of years (principally, 10 years) not exceeding the average remaining years of service of employees when such differences occur.

Prior service cost is amortized as an extraordinary expense in a lump sum in the fiscal year the Group incurs such cost.

(iv) Allowance for quake-proof reinforcement measures

To meet the payment for expenses, including removal and restoration costs, relating to quake-proof reinforcement works of the columns of its elevated bridges of the Shinkansen Line, the Group provides an amount of expenses reasonably estimated at the close of each current fiscal year.

No amount of expenses that cannot reasonably be estimated at present is provided.

(v) Allowance for environment and safety measures

To meet the payment for expenses of disposal of PCB and other wastes, the Group provides an amount of expenses reasonably estimated at the close of each current fiscal year. The estimated amount is calculated based on the unit cost publicized by Japan Environment Safety Co., Ltd. (JESCO). No amount of expenses of disposal that cannot reasonably be estimated at present is provided.

To meet the payment for expenses of disposal of contaminated soil as some of the lands held by the Company for development have been found contaminated, the Group provides an amount of expenses reasonably estimated at the close of each current fiscal year. With regard to any of the lands requiring the Company to negotiate with the previous owners of the relevant lands for arrangements for the payment for expenses of disposal thereof, no amount of expenses of disposal is provided.

(vi) Allowance for gift certificates yet to be redeemed

To meet the future redemption of gift certificates issued by some consolidated subsidiaries and recorded as income after the lapse of a certain period after the issuance thereof, the Group provides an amount of future redemption reasonably estimated based on the past redemption rate at the close of each current fiscal year.

(vii) Allowance for rewards based on points

To meet the future use of points given to customers, the Group provides an amount of future rewards estimated at the close of each current fiscal year.

(5) Accounting treatment of proceeds from construction contract:

For the purpose of construction to elevate railway tracks and other works for its railway operations, the Company receives from local municipal entities contributions to pay for part of such construction. An amount equivalent to such contributions is deducted directly from acquisition costs of the fixed assets so acquired upon the completion of such construction.

In the consolidated statement of income, the Group accounts for such contributions received for construction as an extraordinary profit and such amount directly deducted from acquisition costs of the fixed assets, as a loss on reduction entry of proceeds from construction, as an extraordinary expense.

(6) Accounting treatment of consumption taxes:

Consumption taxes are excluded from each account subject to such taxes.

5. Matters concerning the valuation of assets and liabilities of consolidated subsidiaries:

Assets and liabilities of the consolidated subsidiaries are valued based on the overall market value method.

6. Matters concerning the amortization of goodwill and negative goodwill:

Goodwill and negative goodwill are amortized equally over five years.

7. Changes in the important matters forming the basis of preparation of consolidated financial statements:

(1) Application of the Accounting Standard for Measurement of Inventories:

As the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Corporate Accounting Standard No.9, July 5, 2006) has become applicable to consolidated financial statements for any fiscal year commencing on or prior to March 31, 2008, the Group has applied the accounting standard as from the fiscal year under review.

The change has no significant effect on the consolidated financial statements.

(2) Change in the method of depreciation of tangible fixed assets:

In accordance with the amendment to the Corporate Tax Law of Japan, tangible fixed assets, excluding buildings, acquired on or after April 1, 2007 are depreciated principally by the declining balance method under the Corporate Tax Law as amended, as from the fiscal year under review. With regard to the tangible fixed assets acquired on or prior to March 31, 2007 and depreciated by the allowable limit for depreciation,

the residual book value thereof is depreciated equally over five years.

With regard to the depreciation of buildings, the declining balance method has principally been applicable. However, the buildings acquired on or after April 1, 2007 are depreciated principally by the declining balance method under the Corporate Tax Law as amended.

The Company publicized a revision of the Group's medium-term management objectives, which include the "promotion of measures to enhance safety" and the "provision of quality services and products preferred by customers" as its important management issues, in October 31, 2006 and promoted the installation of additional ATS systems and quake-proof reinforcement works of the columns of its elevated bridges during the fiscal year ended March 31, 2007. Since the fiscal year ended March 31, 2008, the Company will continue its efforts to enhance safety and also steadily promote various projects in the railway operations, including preparations for the extension of the Kyushu Shinkansen Line to Hakata toward the end of the fiscal year ending March 31, 2011, which includes mutual through services of the Kyushu Shinkansen Line and the Sanyo Shinkansen Line. In addition, the Company will steadily promote the project to renovate the Osaka station and develop a New North Building and continue renovation of the stations by installing barrier-free facilities, which will also be more convenient and functional, and changing the designs of the existing stations in line with the development of commercial establishments in the station premises or otherwise, in an effort to create convenient and attractive stations that may be preferred by more customers. By taking into consideration investments and improvements with regard to its buildings in the future from the aforementioned standpoints, the Company has made such change to the depreciation rate of the buildings as earlier depreciation can more properly reflect the conditions of the stations and other buildings for business use.

Simultaneously, with regard to the tangible fixed assets acquired on or prior to March 31, 2007 and depreciated by the allowable limit for depreciation, the method under which the residual book value thereof is depreciated equally over five years is applicable. The change has been made by taking into consideration the development of retirement of the buildings of the Company while there is a trend toward the establishment of an accounting practice by which a residual value is fixed at the memorandum value of one yen.

As a result, depreciation amounts included in operating expenses increased by ¥9,433 million and operating income, recurring profit and income before income tax decreased by ¥9,433 million, respectively.

Of the increase in depreciation amounts, the amount of five-year equal depreciation of the residual book value of the existing assets is ¥7,199 million.

(3) Accounting for allowance for gift certificates yet to be redeemed:

Gift certificates issued by some consolidated subsidiaries and recorded as income after

the lapse of a certain period after the issuance thereof have been deducted as expenses upon redemption thereof. However, upon the publication of the "Practical Guideline on Audit Treatment of Reserves under the Special Taxation Measures Law, Allowances or Reserves under the Special Laws and Allowances for Retirement Benefits for Directors, Etc." (JICPA Auditing and Assurance Practice Committee Statement No. 42, April 13, 2007), to meet the future redemption of such gift certificates, the Group provides an amount of future redemption reasonably estimated based on the past redemption rate at the close of each current fiscal year, as from the fiscal year under review.

As a result, in comparison with the previous method, operating revenues, operating income and recurring profit increased by ¥67 million, ¥67 million and ¥63 million, respectively and income before income tax decreased by ¥2,667 million.

II. Notes to consolidated balance sheet, etc.

1. Assets pledged

Assets pledged:

| | |
|--------------------------|-----------------|
| Deposits | ¥230 million |
| Buildings and structures | ¥20,740 million |
| Land | ¥190 million |
| Investment in securities | ¥302 million |
| Total | ¥21,463 million |

Secured liabilities:

| | |
|-----------------------------------|----------------|
| Long-term debt | ¥5,810 million |
| Current portion of long-term debt | ¥650 million |
| Other current liabilities | ¥1,991 million |
| Total | ¥8,451 million |

In addition, pursuant to Article 7 of the Supplementary Provisions to the Law to Amend Part of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Law No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥175,000 million).

- | | |
|---|--------------------|
| 2. Accumulated depreciation of tangible fixed assets: | ¥2,640,818 million |
| 3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: | ¥525,033 million |

4. Particulars of guarantee obligations:

(million yen)

| Guarantee | Guarantee amount | Details of guaranteed obligations |
|------------------------------------|------------------|---|
| Osaka Soto-Kanjo Railway Co., Ltd. | 7,800 | Commitment to guarantee for loans from financial institutions |
| Nichiryō Service Co., Ltd. | 400 | Guarantee for sale of JR tickets on consignment |
| Nichiryō-OMC Co., Ltd. | 239 | Guarantee for payment for air fares |
| Others (4 companies) | 173 | |
| Total | 8,612 | |

5. Matters concerning the train accident on the Fukuchiyama Line:

Expenses resulting from the train accident on the Fukuchiyama Line, including compensation, are anticipated. However, it is difficult to reasonably estimate the amount thereof at present.

III. Notes to consolidated statement of changes in shareholders' equity, etc.

1. Matters concerning the class and number of shares issued and outstanding

| Class | Number of shares as of March 31, 2007 (shares) | Increase in the number of shares during the year | Decrease in the number of shares during the year | Number of shares as of March 31, 2008 (shares) |
|------------------------|--|--|--|--|
| Shares of common stock | 2,000,000 | - | - | 2,000,000 |

2. Matters concerning the class and number of shares of treasury stock

| Class | Number of shares as of March 31, 2007 (shares) | Increase in the number of shares during the year | Decrease in the number of shares during the year | Number of shares as of March 31, 2008 (shares) |
|------------------------|--|--|--|--|
| Shares of common stock | 885 | 17,480 | - | 18,365 |

The increase of 17,480 shares in the number of shares of common stock held by the Company was due to the increase of 46 shares in the Company held by its equity-method affiliated companies attributable to the Company as a result of an increase in its equities in such affiliated companies, and the increase of 17,434 shares as a result of the acquisition by the Company of its own shares.

3. Matters concerning dividends

(1) Amount of dividends paid

| Resolution | Class of shares | Total amount of dividends (million yen) | Amount of dividend per share (yen) | Record date | Effective date |
|--|------------------------|---|------------------------------------|--------------------|-------------------|
| Ordinary General Meeting of Shareholders held on June 22, 2007 | Shares of common stock | 6,000 | 3,000 | March 31, 2007 | June 25, 2007 |
| Meeting of the Board of Directors held on October 30, 2007 | Shares of common stock | 6,000 | 3,000 | September 30, 2007 | November 30, 2007 |

(2) Dividends the record date for which falls during the fiscal year under review but the effective date for which falls during the next fiscal year

| Resolution (expected) | Class of shares | Total amount of dividends (million yen) | Source of dividends | Amount of dividend per share (yen) | Record date | Effective date |
|--|------------------------|---|---------------------|------------------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders to be held on June 24, 2008 | Shares of common stock | 5,947 | Retained earnings | 3,000 | March 31, 2008 | June 25, 2008 |

IV. Notes to information per share

1. Net assets per share: ¥322,294.60
2. Net income per share: ¥28,954.78

BALANCE SHEET
(As of March 31, 2008)

| <u>ASSETS</u> | (million yen) |
|---|-------------------------|
| Current assets: | 148,899 |
| Cash and deposits..... | 31,471 |
| Railway fares receivable..... | 23,359 |
| Accounts receivable..... | 22,563 |
| Accrued income..... | 4,516 |
| Short-term loans..... | 28,583 |
| Materials and supplies..... | 8,015 |
| Prepaid expenses..... | 1,944 |
| Deferred tax assets..... | 14,984 |
| Other current assets..... | 13,630 |
| Less allowance for doubtful accounts..... | (169) |
| Fixed assets: | 2,074,047 |
| Fixed assets for railway operations..... | 1,583,696 |
| Fixed assets for ferry services..... | 479 |
| Fixed assets for related businesses..... | 59,587 |
| Other relevant fixed assets..... | 72,035 |
| Construction in progress..... | 76,390 |
| Investments and other assets..... | 281,857 |
| Stocks of affiliates..... | 123,671 |
| Investment in securities..... | 15,413 |
| Long-term loans receivable..... | 40,173 |
| Long-term prepaid expenses..... | 3,869 |
| Deferred tax assets..... | 94,525 |
| Other investments and advances..... | 4,490 |
| Less allowance for doubtful accounts..... | (285) |
| TOTAL ASSETS | <u>2,222,947</u> |

(Note) Figures are indicated by discarding fractions of one million yen.

LIABILITIES

| | |
|--|-------------------------|
| Current liabilities: | 587,589 |
| Short-term borrowings | 136,069 |
| Current portion of bonds | 45,000 |
| Current portion of long-term debt..... | 40,116 |
| Current portion of long-term payables for acquisition of railway properties | 34,598 |
| Current portion of long-term payables..... | 319 |
| Other accounts payable | 145,562 |
| Accrued expenses..... | 19,657 |
| Accrued consumption taxes | 1,040 |
| Accrued income tax | 29,017 |
| Railway deposits received..... | 1,858 |
| Deposits..... | 11,395 |
| Prepaid railway fares received | 31,211 |
| Advances received | 64,238 |
| Prepaid income received | 373 |
| Allowance for bonuses..... | 26,609 |
| Allowance for rewards based on points | 480 |
| Other current liabilities | 39 |
| Long-term liabilities: | 1,082,912 |
| Bonds | 234,964 |
| Long-term debt..... | 185,882 |
| Long-term payables for acquisition of railway properties | 392,872 |
| Other long-term payables..... | 1,973 |
| Retirement allowances for employees | 238,518 |
| Allowance for quake-proof reinforcement measures..... | 2,222 |
| Allowance for environment and safety measures | 11,466 |
| Other long-term liabilities..... | 15,012 |
| TOTAL LIABILITIES | <u>1,670,501</u> |

NET ASSETS

| | |
|---|-------------------------|
| Shareholders' equity | 548,444 |
| Common stock: | 100,000 |
| Capital surplus: | 55,000 |
| Capital reserve | 55,000 |
| Retained earnings: | 403,444 |
| Retained earnings reserve | 11,327 |
| Other retained earnings | 392,117 |
| Reserve for advanced depreciation of fixed assets | 17,767 |
| General reserve | 290,000 |
| Retained earnings carried forward | 84,349 |
| Treasury stock..... | (9,999) |
| Evaluation and exchange differences, etc.: | 4,000 |
| Evaluation difference on other securities..... | 4,000 |
| TOTAL NET ASSETS | 552,445 |
| TOTAL LIABILITIES AND NET ASSETS | <u>2,222,947</u> |

(Note) Figures are indicated by discarding fractions of one million yen.

STATEMENT OF INCOME

(For the period from April 1, 2007 to March 31, 2008)

(million yen)

| | | |
|--|---------|----------|
| Railway operations | | |
| Operating revenues | 859,411 | |
| Operating expenses | 761,966 | |
| Operating income | | 97,445 |
| Ferry services | | |
| Operating revenues | 422 | |
| Operating expenses | 504 | |
| Operating loss | | 81 |
| Related businesses | | |
| Operating revenues | 19,625 | |
| Operating expenses | 7,165 | |
| Operating income | | 12,460 |
| Operating income | | 109,824 |
| Non-operating income | | |
| Interest and dividend income | 1,054 | |
| Other income | 5,147 | 6,202 |
| Non-operating expenses | | |
| Interest expenses | 35,438 | |
| Other expenses | 614 | 36,052 |
| Recurring profit | | 79,974 |
| Extraordinary profits: | | |
| Proceeds from construction contract | 25,891 | |
| Gain on sale of fixed assets | 8,016 | |
| Others | 7,040 | 40,949 |
| Extraordinary expenses: | | |
| Loss on reduction entry of proceeds from construction | 24,864 | |
| Others | 19,968 | 44,832 |
| Income before income tax | | 76,090 |
| Corporation, inhabitant and enterprise taxes | | 43,973 |
| Income taxes - deferred | | (13,010) |
| Net income | | 45,128 |

(Note) Figures are indicated by discarding fractions of one million yen.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.

(For the period from April 1, 2007 to March 31, 2008)

(million yen)

| | Shareholders' equity | | | | | | | | | Evaluation and exchange differences, etc. | Total net assets |
|--|----------------------|-----------------|---------------------------|---|-----------------|-----------------------------------|-------------------------|----------------|----------------------------|--|------------------|
| | Capital stock | Capital surplus | Retained earnings | | | | | Treasury stock | Total shareholders' equity | Evaluation differences on other securities | |
| | | Capital reserve | Retained earnings reserve | Other retained earnings | | | Total retained earnings | | | | |
| | | | | Reserve for advanced depreciation of fixed assets | General reserve | Retained earnings carried forward | | | | | |
| Balance as of March 31, 2007 | 100,000 | 55,000 | 11,327 | 15,436 | 260,000 | 83,553 | 370,316 | - | 525,316 | 8,003 | 533,320 |
| Changes during the year: | | | | | | | | | | | |
| Distribution of surplus | | | | | | (12,000) | (12,000) | | (12,000) | | (12,000) |
| Net income | | | | | | 45,128 | 45,128 | | 45,128 | | 45,128 |
| Transfer to reserve for advanced depreciation of fixed assets | | | | 3,649 | | (3,649) | - | | - | | - |
| Reversal of reserve for advanced depreciation of fixed assets | | | | (1,317) | | 1,317 | - | | - | | - |
| Transfer to general reserve | | | | | 30,000 | (30,000) | - | | - | | - |
| Acquisition of treasury stock | | | | | | | | (9,999) | (9,999) | | (9,999) |
| Changes in items other than shareholders' equity during the year (net) | | | | | | | | | | (4,003) | (4,003) |
| Total changes during the year | - | - | - | 2,331 | 30,000 | 796 | 33,128 | (9,999) | 23,128 | (4,003) | 19,125 |
| Balance as of March 31, 2008 | 100,000 | 55,000 | 11,327 | 17,767 | 290,000 | 84,349 | 403,444 | (9,999) | 548,444 | 4,000 | 552,445 |

(Note) Figures are indicated by discarding fractions of one million yen.

Notes to Non-Consolidated Financial Statements
(For the period from April 1, 2007 to March 31, 2008)

(Note) Figures are indicated by discarding fractions of one million yen.

I. Notes on the matters concerning significant accounting policies:

1. Basis and method of valuation of assets

(1) Basis and method of valuation of marketable securities:

1) Stocks of subsidiaries and affiliates: At cost, determined by the moving average method

2) Other marketable securities:

Those with market value: At market value, determined by market prices, etc. as of the close of the fiscal year (Revaluation differences are all transferred directly to net assets. Selling costs are determined by the moving average method.)

Those without market value: At cost, determined by the moving average method

(2) Basis and method of evaluation of inventories:

Materials and supplies: At cost, determined by the moving average method

2. Method of depreciation of fixed assets:

(1) Tangible fixed assets:

Declining balance method; provided, however, that the replacement cost method is applicable to replacement assets for railway services.

(2) Intangible fixed assets:

Intangible fixed assets are depreciated by the straight-line method. Software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).

(3) Long-term prepaid expenses:

Long-term prepaid expenses are written off in equal amounts.

3. Method of treatment of deferred assets:

Bond issuing expenses are all treated as expenses upon payment thereof.

4. Basis for accounting for allowances and accrued liabilities:

(1) Allowance for doubtful accounts:

To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.

(2) Allowance for bonuses:

To meet the payment of bonuses to employees, the Company sets aside an estimated amount of bonuses to be paid for each current fiscal year.

(3) Retirement allowances for employees:

To meet the payment of retirement benefits to employees, the Company provides an amount, based on estimated retirement benefit obligations as of the close of each current fiscal year.

The difference of ¥301,642 million upon the change of accounting standards for employee retirement benefits is treated as expenses, and is amortized on a straight-line basis for a period of 10 years.

Actuarial differences are treated as expenses from the fiscal year next following the fiscal year when such differences occur, and are amortized on a straight-line basis for a specific period of years (10 years) not exceeding the average remaining years of service of employees when such differences occur.

Prior service cost is amortized as an extraordinary expense in a lump sum in the fiscal year the Company incurs such cost.

(4) Allowance for quake-proof reinforcement measures

To meet the payment for expenses, including removal and restoration costs, relating to quake-proof reinforcement works of the columns of its elevated bridges of the Shinkansen Line, the Company provides an amount of expenses reasonably estimated at the close of each current fiscal year.

No amount of expenses that cannot reasonably be estimated at present is provided.

(5) Allowance for environment and safety measures

To meet the payment for expenses of disposal of PCB and other wastes, the Company provides an amount of expenses reasonably estimated at the close of each current fiscal year. The estimated amount is calculated based on the unit cost publicized by Japan Environment Safety Co., Ltd. (JESCO). No amount of expenses of disposal

that cannot reasonably be estimated at present is provided.

To meet the payment for expenses of disposal of contaminated soil as some of the lands held by the Company for development have been found contaminated, the Company provides an amount of expenses reasonably estimated at the close of each current fiscal year. With regard to any of the lands requiring the Company to negotiate with the previous owners of the relevant lands for arrangements for the payment for expenses of disposal thereof, no amount of expenses of disposal is provided.

(6) Allowance for rewards based on points

To meet the future use of points given to J-West Card members, the Company provides an amount of future rewards estimated at the close of each current fiscal year.

5. Accounting treatment of lease transactions:

With regard to the treatment of finance lease transactions other than those in which ownership of leased property is considered to be transferred to borrowers, the method for regular lease transactions applies similarly.

6. Accounting treatment of proceeds from construction contract:

For the purpose of construction to elevate railway tracks and other works for its railway operations, the Company receives from local municipal entities contributions to pay for part of such construction. An amount equivalent to such contributions is deducted directly from acquisition costs of the fixed assets so acquired upon the completion of such construction.

In the statement of income, the Company accounts for such contributions received for construction as an extraordinary profit and such amount directly deducted from acquisition costs of the fixed assets, as a loss on reduction entry of proceeds from construction, as an extraordinary expense.

7. Accounting treatment of consumption taxes:

Consumption taxes are excluded from each account subject to such taxes.

8. Changes in the significant accounting policies:

(1) Application of the Accounting Standard for Measurement of Inventories:

As the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Corporate Accounting Standard No.9, July 5, 2006) has become applicable to financial statements for any fiscal year commencing on or prior to March 31, 2008, the Company has applied the accounting standard as from the fiscal year under review.

The change has no significant effect on the consolidated financial statements.

(2) Change in the method of depreciation of tangible fixed assets:

In accordance with the amendment to the Corporate Tax Law of Japan, tangible fixed assets, excluding buildings, acquired on or after April 1, 2007 are depreciated by the declining balance method under the Corporate Tax Law as amended, as from the fiscal year under review. With regard to the tangible fixed assets acquired on or prior to March 31, 2007 and depreciated by the allowable limit for depreciation, the residual book value thereof is depreciated equally over five years.

With regard to the depreciation of buildings, the declining balance method has been applicable. However, the buildings acquired on or after April 1, 2007 are depreciated by the declining balance method under the Corporate Tax Law as amended.

The Company publicized a revision of the Group's medium-term management objectives, which include the "promotion of measures to enhance safety" and the "provision of quality services and products preferred by customers" as its important management issues, in October 31, 2006 and promoted the installation of additional ATS systems and quake-proof reinforcement works of the columns of its elevated bridges during the fiscal year ended March 31, 2007. Since the fiscal year ended March 31, 2008, the Company will continue its efforts to enhance safety and also steadily promote various projects in the railway operations, including preparations for the extension of the Kyushu Shinkansen Line to Hakata toward the end of the fiscal year ending March 31, 2011, which includes mutual through services of the Kyushu Shinkansen Line and the Sanyo Shinkansen Line. In addition, the Company will steadily promote the project to renovate the Osaka station and develop a New North Building and continue renovation of the stations by installing barrier-free facilities, which will also be more convenient and functional, and changing the designs of the existing stations in line with the development of commercial establishments in the station premises or otherwise, in an effort to create convenient and attractive stations that may be preferred by more customers. By taking into consideration investments and improvements with regard to its buildings in the future from the aforementioned standpoints, the Company has made such change to the depreciation rate of the buildings as earlier depreciation can more properly reflect the conditions of the stations and other buildings for business use.

Simultaneously, with regard to the tangible fixed assets acquired on or prior to March 31, 2007 and depreciated by the allowable limit for depreciation, the method under which the residual book value thereof is depreciated equally over five years is applicable. The change has been made by taking into consideration the development of retirement of the buildings of the Company while there is a trend toward the establishment of an accounting practice by which a residual value is fixed at the memorandum value of one yen.

As a result, depreciation amounts included in operating expenses increased by ¥8,741

million and operating income, recurring profit and income before income tax decreased by ¥8,741 million, respectively.

Of the increase in depreciation amounts, the amount of five-year equal depreciation of the residual book value of the existing assets is ¥6,765 million.

II. Notes to balance sheet, etc.

1. Assets pledged

Pursuant to Article 7 of the Supplementary Provisions to the Law to Amend Part of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Law No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥175,000 million).

2. Accumulated depreciation of tangible fixed assets: ¥2,431,556 million
3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥525,033 million
4. Total amount of fixed assets by item:

| | |
|-------------------------|--------------------|
| Tangible fixed assets | ¥1,700,606 million |
| Land | ¥640,410 million |
| Buildings | ¥117,796 million |
| Structures | ¥654,307 million |
| Rolling stock | ¥197,584 million |
| Others | ¥90,506 million |
| Intangible fixed assets | ¥15,191 million |

5. Particulars of guarantee obligations:

(million yen)

| Guarantee | Guarantee amount | Details of guaranteed obligations |
|---|------------------|---|
| Kyoto Station Building Development Co., Ltd. | 14,607 | Commitment to guarantee for loans from financial institutions |
| Osaka Soto-Kanjo Railway Co., Ltd. | 7,800 | |
| Hotel Granvia Okayama Co., Ltd. | 1,976 | Guarantee for loans from financial institutions |
| Hotel Granvia Osaka Co., Ltd. and 2 other companies | 30 | Guarantee for the balance of prepaid cards issued |
| Total | 24,414 | |

- | | | |
|-----|--|------------------|
| 6. | Long-term receivables from affiliates: | ¥40,718 million |
| 7. | Short-term receivables from affiliates: | ¥37,475 million |
| 8. | Long-term payables to affiliates: | ¥4,204 million |
| 9. | Short-term payables to affiliates: | ¥245,201 million |
| 10. | Matters concerning the train accident on the Fukuchiyama Line: | |

Expenses resulting from the train accident on the Fukuchiyama Line, including compensation, are anticipated. However, it is difficult to reasonably estimate the amount thereof at present.

III. Notes to statement of income

- | | | |
|----|---|------------------|
| 1. | Operating revenues: | ¥879,460 million |
| 2. | Operating expenses: | |
| | Delivery expenses and cost of sales: | ¥557,463 million |
| | Railway operations | ¥557,083 million |
| | Ferry services | ¥369 million |
| | Related businesses | ¥11 million |
| | Selling, general and administrative expenses: | ¥75,992 million |
| | Railway operations | ¥71,585 million |
| | Ferry services | ¥43 million |
| | Related businesses | ¥4,363 million |
| | General tax: | ¥28,639 million |
| | Depreciation expenses: | ¥107,540 million |
| 3. | Transactions with affiliates: | |
| | Operating revenues: | ¥35,472 million |
| | Operating expenses: | ¥191,816 million |
| | Transactions other than ordinary business: | ¥135,691 million |

4. Loss on impairment of fixed assets:

With regard to the fixed assets determined for abolition for train operations and other reasons and idle assets with no potential for sale or diversion to any other use, the book value thereof was decreased to a recoverable value and the decreased amount was reported as a "loss on impairment of fixed assets" (¥4,103 million) under "extraordinary

expenses".

| Use | Location | Description | Loss on impairment of fixed assets |
|---------------------------------|--|---------------|------------------------------------|
| Assets determined for abolition | 48 Shinkansen rolling stock cars kept in Nakagawa-machi, Chikushi-gun, Fukuoka Prefecture and other places | Rolling stock | ¥2,225 million |
| Idle assets | Lands of 29,000m ² in Kobe City and other places | Land | ¥1,878 million |

IV. Note to statement of changes in shareholders' equity, etc.:

Class and total number of shares of common stock at the end of the fiscal year under review: 17,434 shares

V. Notes to tax effect accounting

1. Principal details of deferred tax assets

| | |
|--|------------------|
| Allowance for bonuses | ¥10,827 million |
| Accrued social insurance contributions | ¥1,362 million |
| Accrued enterprise taxes | ¥2,406 million |
| Retirement allowance for employees | ¥97,053 million |
| Allowance for quake-proof reinforcement measures | ¥904 million |
| Allowance for environment and safety measures | ¥4,672 million |
| Others | ¥13,081 million |
| Subtotal of deferred tax assets | ¥130,307 million |
| Valuation reserve | (¥5,863 million) |
| Total deferred tax assets | ¥124,443 million |

2. Principal details of deferred tax liabilities

| | |
|---|-------------------|
| Evaluation difference on other securities | (¥2,744 million) |
| Reserve for advanced depreciation of fixed assets | (¥12,189 million) |
| Total deferred tax liabilities | (¥14,934 million) |

3. Deferred tax assets – net ¥109,509 million

VI. Notes to fixed assets used on lease

In addition to the fixed assets listed in the balance sheet, part of office equipment is used pursuant to finance lease agreements in which ownership of leased property shall not be transferred to the Company:

| | |
|---|--------------|
| 1. Amount equivalent to the acquisition prices of leased property at the end of the fiscal year under review: | ¥982 million |
| 2. Amount equivalent to the accumulated depreciation of leased property at the end of the fiscal year under review: | ¥350 million |
| 3. Amount equivalent to the balance of unearned rent of leased property at the end of the fiscal year under review: | ¥632 million |

VI. Notes to information per share

| | |
|--------------------------|-------------|
| 1. Net assets per share: | ¥278,651.89 |
| 2. Net income per share: | ¥22,632.52 |

Account Auditors' Audit Report Relating to Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

May 9, 2008

The Board of Directors
West Japan Railway Company

Ernst & Young ShinNihon

Kenji Takeyama (seal)
Specified and Executive Partner
Certified Public Accountant

Takayuki Nishida (seal)
Specified and Executive Partner
Certified Public Accountant

Koichi Noda (seal)
Specified and Executive Partner
Certified Public Accountant

Yutaka Matsumura (seal)
Specified and Executive Partner
Certified Public Accountant

We have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity, etc. and the notes to consolidated financial statements of West Japan Railway Company (the "Company"), applicable to its consolidated fiscal year from April 1, 2007 to March 31, 2008 pursuant to Article 444, paragraph 4 of the Corporation Law of Japan. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements from an independent standpoint.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require us to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence. An audit also includes assessing the accounting policies and methods of application thereof employed by management and estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We are of the opinion that the above consolidated financial statements present properly the financial position and profit and loss of the corporate group comprised of West Japan Railway Company and its consolidated subsidiaries for the period related to the

consolidated financial statements in all material respects in conformity with the corporate accounting standards generally accepted in Japan.

Additional information

As stated in the "changes in the important matters forming the basis of preparation of consolidated financial statements", the Company changed the method of depreciation of tangible fixed assets as from the consolidated fiscal year under review.

We have no financial interest in the Company which is required to be disclosed under the provisions of the Certified Public Accountants Law of Japan.

- END -

Audit Report of the Board of Corporate Auditors Relating to Consolidated Financial Statements

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We, the Board of Corporate Auditors of the Company, based on the audit report prepared by each Corporate Auditor on the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity, etc. and the notes to consolidated financial statements for the 21st fiscal year from April 1, 2007 to March 31, 2008, prepared this audit report upon deliberation and hereby report as follows:

1. Method of Audit by the Corporate Auditors and the Board of Corporate Auditors and the Particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc. and received from each Corporate Auditor reports on the state of his performance of audits and the results thereof.

Each Corporate Auditor, in accordance with the audit policy, audit plans, etc., as determined by the Board of Corporate Auditors, received from Directors, employees, etc. reports on the consolidated financial statements and demanded their explanations whenever necessary. We also monitored and verified whether the Account Auditors had maintained an independent position and conducted adequate audits, and received from the Account Auditors reports on the state of performance of their duties and demanded their explanations whenever necessary. In addition, we received from the Account Auditors a notice that the "systems to secure adequate performance of duties" (as listed in the items of Article 159 of the Corporate Accounting Regulations) had been established in accordance with the "Standard for Quality Control Concerning Audits" (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary. In accordance with such methods, we investigated the consolidated financial statements for the fiscal year under review.

2. Results of Audit:

We are of the opinion that the method and results of the audit made by the Account Auditors, Ernst & Young ShinNihon, are proper.

May 16, 2008

The Board of Corporate Auditors
West Japan Railway Company

Noboru Koide (seal)
Full-time Corporate Auditor

Tsutomu Iwasaki (seal)
Full-time Corporate Auditor
(External Corporate Auditor)

Kazuo Yoshida (seal)
External Corporate Auditor

Ikuo Uno (seal)
External Corporate Auditor

INDEPENDENT AUDITORS' REPORT

May 9, 2008

The Board of Directors
West Japan Railway Company

Ernst & Young ShinNihon

Kenji Takeyama (seal)
Specified and Executive Partner
Certified Public Accountant

Takayuki Nishida (seal)
Specified and Executive Partner
Certified Public Accountant

Koichi Noda (seal)
Specified and Executive Partner
Certified Public Accountant

Yutaka Matsumura (seal)
Specified and Executive Partner
Certified Public Accountant

We have audited the balance sheet, the statement of income, the statement of changes in shareholders' equity, etc. and the notes to non-consolidated financial statements, and the supplementary financial schedules of West Japan Railway Company (the "Company"), applicable to its 21st fiscal year from April 1, 2007 to March 31, 2008 pursuant to Article 436, paragraph 2, item 1 of the Corporation Law of Japan. These financial statements and the supplementary financial schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the supplementary financial schedules from an independent standpoint.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require us to obtain reasonable assurance about whether the financial statements and the supplementary financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence. An audit also includes assessing the accounting policies and methods of application thereof employed by management and estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary financial schedules. We believe that our audit provides a reasonable basis for our opinion.

We are of the opinion that the above financial statements and the supplementary financial schedules present properly the financial position and profit and loss for the period

related to the financial statements and the supplementary financial schedules in all material respects in conformity with the corporate accounting standards generally accepted in Japan.

Additional information

As stated in the "changes in the significant accounting policies", the Company changed the method of depreciation of tangible fixed assets as from the fiscal year under review.

We have no financial interest in the Company which is required to be disclosed under the provisions of the Certified Public Accountants Law of Japan.

Audit Report of the Board of Corporate Auditors

AUDITORS' REPORT

We, the Board of Corporate Auditors of the Company, based on the audit report prepared by each Corporate Auditor on the performance by the Directors of their duties during the 21st fiscal year from April 1, 2007 to March 31, 2008, prepared this audit report upon deliberation and hereby report as follows:

1. Method of Audit by the Corporate Auditors and the Board of Corporate Auditors and the Particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc. and received from each Corporate Auditor reports on the state of his performance of audits and the results thereof.

Each Corporate Auditor, pursuant to the rules of audits by Corporate Auditors determined by the Board of Corporate Auditors and in accordance with the audit policy, audit plans, etc., maintained constant communication with the Directors, internal audit divisions and other employees, etc. in an effort to collect information and improve the environment for auditing, attended meetings of the Board of Directors and other important meetings, received from the Directors and employees, etc., reports on the state of performance of their duties, demanded their explanations whenever necessary, inspected important decision documents, etc., and made investigation into the state of activities and property at the head office and principal business offices of the Company. We also monitored and verified the details of the resolutions of the Board of Directors for establishing systems to secure that the performance by the Directors of their duties will comply with laws or ordinances and the Articles of Incorporation and such other systems provided for in Article 100, paragraphs 1 and 3 of the Regulations to Enforce the Corporation Law of Japan as necessary to secure the adequacy of business of joint-stock corporations, as well as the status of the systems (internal control systems) established pursuant to such resolutions. With regard to its subsidiaries, we maintained constant communication and exchanged information with the directors, corporate auditors, etc. thereof and required the subsidiaries to render reports on their business operations and made investigation into the state of their activities and property whenever necessary. In accordance with such methods, we investigated the business report and its supplementary schedules for the fiscal year under review.

We also monitored and verified whether the Account Auditors had maintained an independent position and conducted adequate audits, and received from the Account Auditors reports on the state of performance of their duties and demanded their explanations whenever necessary. In addition, we received from the Account Auditors a notice that the "systems to secure adequate performance of duties" (as listed in the items of Article 159 of the Corporate Accounting Regulations) had been established in accordance with the "Standard for Quality Control Concerning Audits" (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary. In accordance with such methods, we investigated the balance sheet, the statement of income, the statement of changes in

shareholders' equity, etc. and the notes to non-consolidated financial statements, and the supplementary financial schedules for the fiscal year under review.

2. Results of Audit:

(1) Results of audit of the business report, etc.:

We are of the opinion:

- (i) That the business report and its supplementary schedules fairly presents the state of the Company in accordance with laws or ordinances and the Articles of Incorporation;
- (ii) That in connection with the performance by the Directors of their duties, no dishonest act or material fact of violation of laws or ordinances or the Articles of Incorporation exists; and
- (iii) That the details of the resolutions of the Board of Directors on internal control systems are proper and that the performance by the Directors of their duties concerning such internal control systems contains nothing to be pointed out.

(2) Results of audit of the financial statements and the supplementary financial schedules:

We are of the opinion that the method and results of the audit made by the Account Auditors, Ernst & Young ShinNihon, are proper.

May 16, 2008

The Board of Corporate Auditors
West Japan Railway Company

Noboru Koide (seal)
Full-time Corporate Auditor

Tsutomu Iwasaki (seal)
Full-time Corporate Auditor
(External Corporate Auditor)

Kazuo Yoshida (seal)
External Corporate Auditor

Ikuo Uno (seal)
External Corporate Auditor

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