(Translation)

Matters to be disclosed on the Internet in accordance with laws and ordinances and the Articles of Incorporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2014 to March 31, 2015)

West Japan Railway Company

The notes to consolidated financial statements and the notes to non-consolidated financial statements are posted on our website (http://www.westjr.co.jp/company/ir/stock/meeting/)* in accordance as provided for in laws and ordinances and the Articles of Incorporation of the Company.

(*) The website is in the Japanese language.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2014 to March 31, 2015)

(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: 63

The consolidated subsidiaries of the Company are West Japan Railway Hotel Development Limited, West Japan Railway Isetan Limited, Kyoto Station Building Development Co., Ltd., Osaka Terminal Building Company, Nippon Travel Agency Co., Ltd., Chugoku JR Bus Company, West Japan Railway Daily Service Net Company, West Japan JR Bus Company, Daitetsu Kogyo Co., Ltd., JR-West Japan Real Estate & Development Company, JR West Japan Communications Company, West Japan Electric System Co., Ltd. and 51 others.

Daitetsu Kogyo Co., Ltd., which was an affiliated company subject to the equity method in the previous fiscal year, as well as its subsidiary JR-West Built Co., Ltd., is included in the scope of consolidation as from the business year under review because it has become a subsidiary of the Company due to the acquisition of its own shares resulting in an increase in the Company's ratio of voting rights.

(2) The Company has 81 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 (which is 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 five affiliated companies: Kansai Rapid Railway Co., Ltd., Osaka Soto-Kanjo Railway Co., Ltd., Kosei Construction Co., Ltd., Railway Information Systems Co., Ltd. and Asia Air Survey Co., Ltd.

As from the fiscal year under review, Daitetsu Kogyo Co., Ltd., which was an affiliated company subject to the equity method in the previous fiscal year, is excluded from the scope of the application of the equity method due to its inclusion in the scope of consolidation.

(3) These 81 non-consolidated subsidiaries and 12 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 (which is equal to the equity share) and retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.

(4) Among the affiliated companies subject to the equity method, the settlement date of Asia Air Survey Co., Ltd. is September 30 of each year. With regard to the company, its financial statements for its most recent fiscal year are used. The settlement date of any other affiliated company subject to the equity method is March 31 of each year, which corresponds to the consolidated settlement date.

3. Matters concerning the fiscal years of the consolidated subsidiaries

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

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) Derivatives:	At market value

(iii) 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 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 (excluding leased 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 based on the estimated useful life of internal use (five years).

(iii) Leased assets:

Leased assets related to finance lease transactions that do not transfer ownership:

Leased assets are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction other than those in which ownership of a leased asset is deemed to pass to its lessee, which became effective prior to the fiscal year during which the Accounting Standards Board of Japan ("ASBJ") Statement No. 13 "Accounting Standard for Lease Transactions" first became applicable, is treated similarly in the manner in which ordinary lease transactions are treated.

(iv) 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.

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

(4) Basis for accounting for important allowances:

(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 a fiscal year.

(iii) Allowance for rewards based on points:

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

(iv) Allowance for environment and safety measures:

To meet the payment for expenses of disposal of PCB and other wastes, the Group provides an estimated amount of disposal expenses at the close of the fiscal year under review.

(v) Allowance for gift certificates yet to be redeemed:

To meet the future redemption of gift certificates issued by 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 the fiscal year under review.

(5) Important methods of hedge accounting:

Deferral hedge is adopted in hedge accounting, in principle. Appropriation processing is adopted for exchange contracts and currency swaps that meet the requirements for appropriation processing. Special processing is adopted for interest-rate swap transactions that meet the requirements for special processing.

(6) Basis for accounting for assets for retirement benefits and liabilities for retirement benefits:

Assets for retirement benefits and liabilities for retirement benefits are accounted for based on estimated retirement benefit obligations and pension plan assets as of the close of the fiscal year under review to meet the payment of retirement benefits to employees.

(i) Method of attributing expected retirement benefits to periods:

To calculate retirement benefit obligations, the Group employs an straight-line basis as the method of attributing expected retirement benefits to periods up to the close of the fiscal year under review.

(ii) Methods of treating actuarial differences, past service costs and the difference upon the change of accounting standards as expenses:

The difference upon the change of accounting standards for retirement benefits is treated as expenses, and is amortized on a straight-line basis for a period of 15 years.

Past service costs are amortized principally in a lump sum in a fiscal year when such costs are incurred.

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.

(iii) Application of a simplified method for small companies, etc.

For the purpose of the calculation of liabilities for retirement benefits and retirement benefit expenses, some of the consolidated subsidiaries of the Company adopt a simplified method in which retirement benefit obligations are assumed to be equal to the amount of benefits payable assuming the voluntary retirement of all employees at fiscal year-end.

(7) 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 accounts for 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.

(8) Standard for recognizing revenues and costs of completed construction projects:

The percentage-of-completion method is applicable to construction projects for which the percentage of completion at the close of the fiscal year under review can be reliably estimated and the completed-contract method is applicable to contracts for other construction projects. Estimates of the percentage of completion of construction projects at the close of the fiscal year under review to which the percentage-of-completion method is applicable are made mainly by calculating the percentage of the cost incurred to the estimated total cost.

(9) Standard for recognizing revenues pertaining to finance lease transactions:

Net sales and cost of sales are recognized when lease fees are collected.

(10) Accounting treatment of consumption taxes:

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

5. Matters concerning the amortization of goodwill

Goodwill is amortized equally over five years.

II. Note to change in the accounting policies

Application of the Accounting Standard for Retirement Benefits, Etc.:

From the beginning of the fiscal year under review, the Company has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012, "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015, "Retirement Benefits Application Guidance"), as prescribed in the main clause of paragraph 35 of the Accounting Standard for Retirement Benefits and the main clause of paragraph 67 of the Retirement Benefits Application Guidance. The method for calculating retirement benefit obligations and service cost has been revised, with the period attribution method for expected retirement benefits changed from a straight-line basis to a benefit formula standard, and a change in the method for determining the discount rate.

For the application of the Retirement Benefits Accounting Standard, in accordance with the provisional treatment as prescribed in paragraph 37 of the Retirement Benefits Accounting Standard, from the beginning of the fiscal year under review, the amount of a financial impact resulting from the change in the method for calculating retirement benefit obligations and service cost has been assessed to retained earnings.

As a result, liabilities for retirement benefits at the beginning of the fiscal year under review increased ¥50,992 million and retained earnings decreased ¥32,454 million. The impact on operating income, recurring profit and income before income tax increased ¥3,086 million, respectively.

III. Notes to consolidated balance sheet, etc.

1. Assets pledged

Assets pledged:

Cash and deposits	¥245 million
Buildings and structures	¥15,951 million
Land	¥159 million
Investment in securities	¥605 million
Total	¥16,962 million

Secured liabilities:

Trade accounts payable	¥22 million
Long-term debt	¥1,520 million
Current portion of long-term debt	¥610 million
Total	¥2,152 million

In addition, pursuant to Article 7 of the Supplementary Provisions to the Act to Amend Part of the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Act No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥110,000 million).

2. Accumulated depreciation of tangible fixed assets: ¥3,153,418 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥673,410 million

4. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	9,023	Commitment to guarantee for loans from financial institutions
Non-consolidated subsidiaries (8 companies)	625	Guarantee for sale of JR tickets on consignment
Customers using affiliated housing loans	1,007	Guarantee for affiliated housing loans
Total	10,655	

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.

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

1. Class and number of shares issued and outstanding at the end of the fiscal year under review

Shares of common stock 193,735,000 shares

2. 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 24, 2014	Shares of common stock	11,624	60	March 31, 2014	June 25, 2014
Meeting of the Board of Directors held on October 29, 2014	Shares of common stock	11,624	60	September 30, 2014	December 2, 2014

(2) Dividends for which the record date falls during the fiscal year under review but the effective date 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 23, 2015	Shares of common stock	12,592	Retained earnings	65	March 31, 2015	June 24, 2015

V. Notes to financial instruments

1. Matters relating to the status of financial instruments

(1) Policy in relation to financial instruments:

The Group raises funds (principally through bond issues and long-term debt from banks and others) for funds for repayment of its existing indebtedness and capital investments that cannot be covered by cash flows. Temporary surplus funds are invested in high-security financial assets and short-term operating funds are provided principally by short-term bond issues. The Group uses derivatives to reduce risks, as described below, and has a policy not to conduct speculative trading.

(2) Details of financial instruments and related risks:

Trade receivables – trade notes and accounts receivable, railway fares receivable and accounts receivable – are exposed to credit risk in relation to customers. Marketable securities and investment in securities, which principally consist of shares in the companies with which the Group has business relationships, are exposed to market risk.

Substantially all of trade payables – trade notes and accounts payable, accounts payable, railway deposits received and deposits – have payment due dates within one year. Trade payables in foreign currencies are exposed to foreign currency risk. However, with regard to trade payables in foreign currencies related to overseas travel business, the Group uses exchange contracts to hedge risk, in principle. Bonds and loans are funds raised principally to repay its existing indebtedness and make capital investments, which will be redeemed in 29 years maximum after the settlement date of the fiscal year. Certain bonds and loans with floating rates are exposed to interest volatility risk. Long-term payables for the acquisition of railway properties and long-term payables comprise principally of liabilities for consideration for the Shinkansen railway facilities transferred from Shinkansen Holding Corporation pursuant to the Act Related to the Transfer of the Shinkansen Railway Facilities (1991 Act No. 45), payable in semiannual installments calculated using the equal payment method, whereby principal and interest are paid in equal amounts semiannually, in 36 years maximum after the settlement date of the fiscal year. Some of such long-term payables with floating rates are exposed to interest volatility risk.

Derivatives are currency swap and interest-rate swap transactions to hedge volatility risk involving future exchange rates and the payment of interest relating to financial liabilities, as well as exchange contracts to hedge foreign currency volatility risk involving trade payables in foreign currencies. For the methods of hedge accounting, please refer to the "important methods of hedge accounting" stated in the aforementioned "matters concerning the accounting standards".

(3) Risk management system relating to financial instruments:

(i) Management of credit risk (risk relating to clients' contractual defaults, etc.):

The Company, in accordance with its internal rules, manages the due dates and balances of its trade receivables by client to early detect or reduce credits that may become uncollectable due to the deterioration of its financial position or other reasons. Likewise, its consolidated subsidiaries, in accordance with their respective internal rules, manage their trade receivables.

With regard to derivatives, the Company enters into transactions solely with financial institutions with high ratings to avert counterparty risk.

The maximum amount of credit risk as of the consolidated settlement date of the fiscal year under review is stated in the amount of financial assets exposed to credit risk recorded on the consolidated balance sheet.

(ii) Management of market risk (foreign currency and interest rate volatility risk):

The Company uses currency swap and interest-rate swap transactions to hedge volatility risk involving future exchange rates and the payment of interest relating to financial liabilities. The execution and management thereof are conducted by its divisions responsible for financing in accordance with its internal rules providing for trading authorities.

With regard to trade payables in foreign currencies, some of the consolidated subsidiaries of the Company use exchange contracts to hedge foreign currency risk, detected by currency and by month, in principle. According to exchange rates, the relevant subsidiary enters into exchange contracts for trade payables in foreign currencies, which may be certain to be incurred in anticipated transactions relating to overseas travel products, for a semiannual period at a maximum by taking into consideration the past performance and the status of booking thereof. With regard to the execution and management thereof, some of its consolidated subsidiaries, in accordance with their respective regulations to administer foreign exchange transactions that provide for trading authorities and maximum amounts, among others, approve their basic policies at their foreign exchange councils semiannually and accordingly allow their respective accounting departments to engage in transactions and check the balance with the counterparties. At some of the consolidated subsidiaries, these transactions are administered by their respective administrative departments upon request from the business section of each branch office and their internal auditing divisions manage risk through periodic monitoring systems.

With regard to marketable securities and investment in securities, the Company periodically gains information on the market values and financial standings of the issuers and review the holding of securities other than those held to maturity on a continuous basis by taking into consideration the relationships with the issuers thereof.

(iii) Management of liquidity risk relating to fund-raising (risk of default of payment when due):

The Company prepares and revises cash flow projections on a timely basis based on reports from its divisions, departments and sections and its group companies to manage liquidity risk. The Company also enters into commitment line agreements that make available funds under predetermined terms to secure stable liquidity on hand.

(4) Supplementary explanation of matters relating to the fair values, etc. of financial instruments:

The fair values of financial instruments include market prices and reasonably estimated values if there are no market prices. As the estimation of fair values incorporates variable factors, adopting different assumptions may change the values. With regard to derivatives listed in "2. Matters concerning fair values, etc. of financial instruments" below, the amount thereof in itself does not represent market risk involved in derivatives trading.

2. Matters concerning fair values, etc. of financial instruments

The following chart shows amounts for items recorded in the consolidated balance sheet as of March 31, 2015 (the consolidated settlement date for the fiscal year under review), along with their fair values and the variances. Items for which determining the fair values is recognized as being extremely difficult are not included in the chart. (See Note 2)

(million yen)

		Balance sheet amount	Fair value	Variance
(1)	Cash and deposits	53,592	53,592	-
(2)	Trade notes and accounts receivable	33,922	33,922	-
(3)	Railway fares receivable	35,098	35,098	-
(4)	Accounts receivable	79,074	79,074	-
(5)	Marketable securities and investment in securities:			
	Stocks of affiliates	2,365	2,213	(151)
	Other marketable securities	48,362	48,362	−
(6)	Trade notes and accounts payable	(82,558)	(82,558)	-
(7)	Short-term borrowings	(16,335)	(16,335)	-
(8)	Accounts payable	(96,636)	(96,636)	-
(9)	Accrued income taxes	(20,757)	(20,757)	-
(10)	Railway deposits received	(2,054)	(2,054)	-
(11)	Deposits	(77,114)	(77,114)	-
(12)	Bonds (including current portion of bonds)	(479,977)	(531,671)	(51,693)
(13)	Long-term debt (including current portion of long-term debt)	(352,389)	(365,852)	(13,463)
(14)	Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties)	(171,754)	(285,521)	(113,767)
(15)	Long-term payables (including current portion of long-term payables)	(96)	(99)	(2)
(16)	Derivatives Those to which hedge accounting is applied	1,244	1,244	-

(*) Figures in parentheses ( ) are stated in liabilities.

(Note 1) Matters concerning the calculation method of the fair values of financial instruments, as well as marketable securities and derivatives:

(1) Cash and deposits, (2) Trade notes and accounts receivable, (3) Railway fares receivable and (4) Accounts receivable:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(5) Marketable securities and investment in securities:

All marketable securities are short-term negotiable deposits. For these items, the book value is used as the fair value is nearly equal to the book value.

The fair value of investment in securities is determined by the price of the stock traded on an exchange. For bonds, the value is determined by the price on an exchange or calculated from the present value of the future cash flow discounted at a credit spread plus the yield on government bonds.

(6) Trade notes and accounts payable, (7) Short-term borrowings, (8) Accounts payable (some of which are subjected to appropriation processing for exchange contracts), (9) Accrued income taxes, (10) Railway deposits received and (11) Deposits:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(12) Bonds (including current portion of bonds):

The fair value of bonds issued by the Company is calculated based on the market price.

(13) Long-term debt (including current portion of long-term debt) and (15) Long-term payables (including current portion of long-term payables):

The fair value of these items is calculated from the present value of the total principal and interest discounted at a rate supposing newly conducted similar borrowing. With regard to some long-term debt, which is subject to currency swaps or interest-rate swaps, the fair value is calculated by discounting the total principal and interest to be processed together with such currency swaps or interest-rate swaps, at an estimated rate supposing similar new borrowings were conducted.

(14) Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties):

The fair value of long-term payables for the acquisition of railway properties is calculated based on the present value of the total principal and interest discounted at a rate supposing newly issued similar bonds, due to the difficulty of refinancing the debt acquired based on relevant laws by similar methods.

(16) Derivatives:

The fair value of derivatives is based on the market price and other information shown by the Company's financial institutions.

However, as derivatives subjected to appropriation processing for exchange contracts and special processing for interest-rate swap transactions are processed together with long-term debt to be hedged, the fair value thereof is stated by inclusion in the fair value of such long-term debt.

(Note 2) Financial instruments for which determining the market values is recognized as being extremely difficult:

(million yen)

Item	Balance sheet amount
Investment in securities:	
Other marketable securities	
Unlisted shares	42,992
Others	3

These items have no market price and it is impossible to estimate their future cash flow. As determining the market value is recognized as being extremely difficult, they are not included in "(5) Marketable securities and investment in securities".

VI. Notes to leased and other real estate properties

1. Matters concerning the status of leased and other real estate properties

The Company and some of its subsidiaries hold real estate properties for lease, including office buildings, commercial facilities (with land) and residential buildings, in Osaka-Prefecture and other regions.

2. Matters concerning the market value of leased and other real estate properties

(million yen)

Balance sheet amount	Market value
166,209	360,473

(Note 1) The balance sheet amount is the acquisition amount less accumulated depreciation.

(Note 2) The market value of major properties at the close of the fiscal year under review is calculated based on real-estate appraisal standards. The market value of other properties is recorded as the assessed value or balance sheet amount as a certain portion of the relevant assessed value can be considered to properly reflect the market price.

VII. Notes to information per share

1. Net assets per share: ¥4,138.65
2. Net income per share: ¥344.58

VIII. Other notes:

Application of the "Act for Partial Revision of the Income Tax Act, Etc." and the "Act for Partial Revision of the Local Tax Act, Etc."

On March 31, 2015, the "Act for Partial Revision of the Income Tax Act, Etc." (2015 Law No. 9) and the "Act for Partial Revision of the Local Tax Act, Etc." (2015 Law No. 2) were promulgated. Consequently, the corporate tax rate and business tax rate will be changed from the fiscal year beginning on or after April 1, 2015.

Accordingly, with regard to temporary differences expected to be eliminated for the fiscal year beginning on April 1, 2015, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 35.64% to 33.06%, principally. With regard to temporary differences expected to be eliminated for the fiscal year or years beginning on or after April 1, 2016, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 35.64% to 32.26%, principally.

As a result, net deferred tax assets decreased by ¥13,172 million and income taxes - deferred (Credit) increased by ¥13,366 million.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
(From April 1, 2014 to March 31, 2015)

(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:

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

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

2. Method of depreciation of fixed assets:

(1) Tangible fixed assets (excluding leased assets):

Tangible fixed assets are depreciated by the 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 based on the estimated useful life of internal use (five years).

(3) Leased assets:

Leased assets related to finance lease transactions that do not transfer ownership:

Leased assets are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction other than those in which ownership of a leased asset is deemed to pass to its lessee, which became effective prior to the fiscal year during which the Accounting Standards Board of Japan ("ASBJ") Statement No. 13 "Accounting Standard for Lease Transactions" first became applicable, is treated similarly in the manner in which ordinary lease transactions are treated.

(4) 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

(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 a fiscal year.

(3) 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 the fiscal year under review.

(4) 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 the fiscal year under review.

To calculate retirement benefit obligations, the Company employs an straight-line basis as the method of attributing expected retirement benefits to periods up to the close of the fiscal year under review.

Past service costs are amortized in a lump sum in a fiscal year when such costs are incurred.

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.

(5) Allowance for environment and safety measures:

To meet the payment for expenses of disposal of PCB and other wastes, the Company provides an estimated amount of disposal expenses at the close of the fiscal year under review.

5. Methods of hedge accounting

Deferral hedge is adopted in hedge accounting, in principle. Appropriation processing is adopted for currency swaps that meet the requirements for appropriation processing. Special processing is adopted for interest-rate swap transactions that meet the requirements for special processing.

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 accounts for 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. Standard for recognizing revenues pertaining to finance lease transactions:

Net sales and cost of sales are recognized when lease fees are collected.

8. Accounting treatment of consumption taxes

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

II. Notice of changes in Accounting policies

Application of the Accounting Standard for Retirement Benefits, Etc.:

From the beginning of the fiscal year under review, the Company has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012, "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015). The method for calculating retirement benefit obligations and service cost has been revised, with the period attribution method for expected retirement benefits changed from a straight-line basis to a benefit formula standard, and a change in the method for determining the discount rate.

For the application of the Retirement Benefits Accounting Standard, in accordance with the provisional treatment as prescribed in paragraph 37 of the Retirement Benefits Accounting Standard, from the beginning of the fiscal year under review, the amount of a financial impact resulting from the change in the method for calculating retirement benefit obligations and service cost has been assessed to retained earnings.

As a result, liabilities for retirement allowances for employees at the beginning of the fiscal year under review increased ¥51,784 million and retained earnings decreased ¥33,328 million. The impact on operating income, recurring profit and income before income tax increased ¥2,989 million, respectively.

III. Notes to balance sheet, etc.

1. Assets pledged

Pursuant to Article 7 of the Supplementary Provisions to the Act to Amend Part of the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Act No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥110,000 million).

2. Accumulated depreciation of tangible fixed assets: ¥2,867,401 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥673,410 million

4. Total amount of fixed assets for business use by item

Tangible fixed assets:	¥1,769,421 million
Land:	¥640,211 million
Buildings:	¥151,162 million
Structures:	¥656,514 million
Rolling stock:	¥215,171 million
Others:	¥106,361 million
Intangible fixed assets:	¥26,687 million

5. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	9,023	Commitment to guarantee for loans from financial institutions
Kyoto Station Building Development Co., Ltd.	4,273	
JR West Miyajima Ferry Co. Ltd.	96	Guarantee for the amount payable to Japan Railway Construction, Transport and Technology Agency
Hotel Granvia Osaka Co., Ltd.	17	Guarantee for the balance of prepaid cards issued
Hotel Granvia Hiroshima Co., Ltd.	7	
Total	13,417	

6. Long-term receivables from affiliates: ¥69,245 million

7. Short-term receivables from affiliates: ¥34,612 million

8. Short-term payables to affiliates: ¥277,424 million

9. 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.

IV. Notes to statement of income

1. Operating revenues: ¥890,940 million

2. Operating expenses:

Delivery expenses and cost of sales:		¥577,768 million
	Railway operations	¥577,693 million
	Related businesses	¥75 million
Selling, general and administrative expenses:		¥43,113 million
	Railway operations	¥35,238 million
	Related businesses	¥7,874 million
General tax:		¥32,011 million
Depreciation expenses:		¥126,020 million

3. Transactions with affiliates:

Operating revenues:	¥37,817 million
Operating expenses:	¥209,329 million
Transactions other than ordinary business:	¥104,922 million

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

Class and number of shares of treasury stock at the end of the fiscal year under review:

Shares of common stock:	606 shares

VI Notes to tax effect accounting

1. Principal items of deferred tax assets:

Allowance for bonuses	¥8,848 million
Accrued social insurance contributions	¥1,327 million
Accrued enterprise taxes	¥1,120 million
Retirement allowance for employees	¥113,063 million
Allowance for environment and safety measures	¥3,054 million
Others	¥19,079 million
Subtotal of deferred tax assets	¥146,493 million
Valuation reserve	(¥6,855 million)
Total deferred tax assets	¥139,638 million

2. Principal items of deferred tax liabilities:

Evaluation difference on other securities	(¥1,977 million)
Reserve for advanced depreciation of fixed assets	(¥11,881 million)
Others	(¥7 million)
Total deferred tax liabilities	(¥13,867 million)

3. Deferred tax assets – net: ¥125,771 million

4. Effect of a change of the effective corporate tax rate:

On March 31, 2015, the "Act for Partial Revision of the Income Tax Act, Etc." (2015 Law No. 9) and the "Act for Partial Revision of the Local Tax Act, Etc." (2015 Law No. 2) were promulgated. Consequently, the corporate tax rate and business tax rate will be changed from the fiscal year beginning on or after April 1, 2015.

Accordingly, with regard to temporary differences expected to be eliminated for the fiscal year or years beginning on or after April 1, 2015, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 35.64% to 33.06%. With regard to temporary differences expected to be eliminated for the fiscal year or years beginning on or after April 1, 2016, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 35.64% to 32.26%.

As a result, net deferred tax assets decreased by ¥12,612 million and income taxes - deferred (Credit) increased by ¥12,820 million.

VI. Notes to information per share

1.	Net assets per share:	¥3,260.05
2.	Net income per share:	¥244.57