

Consolidated Six-Year Summary

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

JR-West 2006 Annual Report

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	2006	2005	2004	2003	2002	2001	2006
	Millions of yen						Millions of U.S. dollars
For the Year:							
Operating revenues	¥1,240,098	¥1,220,847	¥1,215,735	¥1,165,571	¥1,190,610	¥1,195,516	\$10,599
Transportation operations*	834,537	829,450	827,639	831,521	852,188	863,284	7,132
Sales of goods and food services*	203,942	196,684	196,856	193,083	195,262	192,231	1,743
Real estate business*	62,884	58,878	57,970	57,265	57,693	56,881	537
Other businesses*	138,734	135,834	133,269	83,700	85,464	83,118	1,185
Operating expenses	1,104,880	1,087,747	1,088,804	1,042,935	1,072,960	1,083,638	9,443
Operating income	135,218	133,100	126,930	122,636	117,649	111,877	1,155
Net income	46,525	58,996	47,016	41,644	45,537	30,961	397
	Millions of yen						Millions of U.S. dollars
At Year-End:							
Total assets	¥2,355,969	¥2,364,322	¥2,410,358	¥2,432,713	¥2,416,787	¥2,576,301	\$20,136
Long-term debt and payables	1,024,944	1,081,668	1,138,546	1,200,715	1,257,960	1,385,661	8,760
Total shareholders' equity	564,254	524,357	479,762	440,556	411,480	413,645	4,822
	Millions of yen						Millions of U.S. dollars
Cash Flows:							
Net cash provided by operating activities	¥164,080	¥142,970	¥140,229	¥130,222	¥99,590	¥138,784	\$1,402
Net cash provided by (used in) investing activities	(101,765)	(84,918)	(91,691)	(63,392)	17,790	9,403	(869)
Net cash used in financing activities	(69,397)	(66,480)	(67,991)	(71,543)	(167,196)	(133,297)	(593)
	Yen						U.S. dollars
Per Share Data:							
Net income	¥ 23,281.96	¥ 29,462.96	¥ 23,423.19	¥ 20,740.12	¥ 22,768.68	¥ 15,480.62	\$ 198
Cash dividends	6,000.00	6,000.00	6,500.00	5,000.00	5,000.00	5,000.00	51
Shareholders' equity	282,245.00	262,232.61	239,876.24	220,284.84	205,740.04	206,822.51	2,412
	%						
Ratios:							
ROA (operating income basis)	5.73	5.58	5.24	5.06	4.71	4.36	
ROE	8.55	11.75	10.22	9.78	11.04	8.12	
Return on operating revenues	3.75	4.83	3.87	3.57	3.82	2.59	
Equity ratio	23.95	22.18	19.90	18.11	17.03	16.06	
	Millions of yen, persons						Millions of U.S. dollars
Other Data:							
Depreciation and amortization	¥111,900	¥113,682	¥115,361	¥113,040	¥115,160	¥120,045	\$ 956
Capital expenditures	¥161,078	¥147,986	¥147,897	¥137,052	¥120,264	¥116,873	1,376
Number of employees	43,093	43,118	44,080	45,250	43,394	45,995	

Notes: 1. Yen figures have been converted into U.S. dollars at the rate of ¥117=U.S.\$1.00, the approximate exchange rate at March 31, 2006.

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

3. * Operating revenues by segment are revenues from third parties.

Results of Operations

In fiscal 2006, ended March 31, 2006, JR-West's operating revenues rose 1.6% year on year to ¥1,240.0 billion, with operating income up 1.6%, to ¥135.2 billion. Net income, however, declined 21.1% to ¥46.5 billion as a result of expenses incurred in relation to the Fukuchiyama Line accident, along with expenses for disposal of PCB containing products, and for earthquake resistance reinforcements.

Factors Affecting Results of Operations

■ Revenues

The Transportation Operations segment's operating revenues are derived mainly from railway transportation. Revenue from railway transportation depends mainly on the number of passengers, and so is affected by numerous factors including competition, economic conditions, the falling birthrate and aging population.

The Sales of Goods and Food Services segment's revenues primarily consist of income from merchandising and restaurant operations. Revenue in this segment is influenced by economic conditions, and competition from other retailers and restaurants. The number of new store openings and store closings also has an effect.

The Real Estate Business segment's revenues are derived mainly from leasing income from facilities in and around stations. Although this segment is affected by economic conditions, the impact is less than that for competitors, as stations enjoy relatively stable traffic, and tenants prefer offices that are conveniently located either on station premises or in the surrounding areas.

The Other Businesses segment's revenues primarily consist of revenues from hotel and travel agency operations. Hotel revenue is affected mainly by economic conditions, room rates, and competition from other hotels. Travel agency revenue is affected mainly by competition from other agents, as well as anything that deters travel, such as economic conditions or terrorist attacks.

■ Expenses

Many employees are taking advantage of JR-West's early retirement program, while staff numbers necessary to maintain operations are secured through new hires and other means. Employee numbers and personnel costs have declined as a result. Personnel costs in the subject fiscal year amounted to ¥276.1 billion, down ¥10.6 billion from the previous fiscal year.

In terms of non-personnel costs, JR-West is working to achieve structural cost reductions through the introduction of rolling stock and equipment that are easily maintained, mechanization, and the improvement of existing infrastructure, while prioritizing safety. However, we are currently implementing measures based on the Safety Enhancement Plan formulated in response to the serious accident that occurred between Tsukaguchi and Amagasaki stations on the Fukuchiyama Line. As a result, for the foreseeable future we anticipate a rise in expenses necessary to enhance safety.

JR-West leases the JR Tozai Line from Kansai Rapid Railway Co., Ltd. On April 1, 2004, a new system was introduced in which annual rail usage charges are renegotiated every three years, and determined in consideration of interest rate fluctuations and other factors. Expenses paid for the subject fiscal year amounted to approximately ¥16.6 billion.

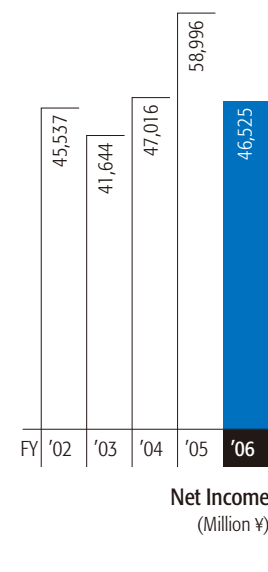
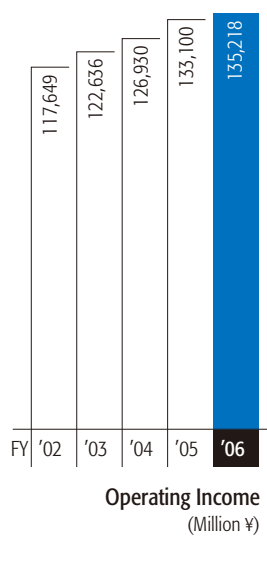
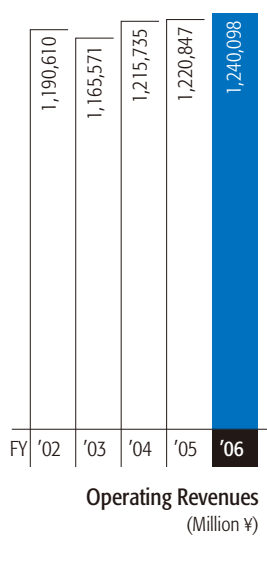
In other expenses, interest expense is a major consideration. The JR-West Group's total interest expense for the subject fiscal year declined ¥2.8 billion to ¥39.7 billion, due to reduction of long-term debt and payables and lower interest rates.

Liquidity and Capital Sources

■ Cash Flows

Net cash provided by operating activities in fiscal 2006 amounted to ¥164.0 billion (up ¥21.1 billion year on year). This was due mainly to an increase in accrued retirement benefits and a decrease in income taxes paid.

Net cash used in investing activities totaled ¥101.7 billion (up ¥16.8 billion). This was due mainly to purchases of property,



plant and equipment, along with a decline in proceeds from sales of investments in securities.

Net cash used in financing activities was ¥69.3 billion (up ¥2.9 billion). This was due mainly to a repayment of ¥57.1 billion for long-term debt and payables, and the payment of dividends.

As a result, cash and cash equivalents at the end of the subject fiscal year amounted to ¥55.4 billion, a year-on-year decrease of ¥6.8 billion.

■ Capital Demand and Capital Investment

JR-West made capital investments totaling ¥161.0 billion in fiscal 2006, of which the Transportation Operations segment accounted for ¥140.2 billion, the Sales of Goods and Food Services segment ¥3.5 billion, the Real Estate Business segment ¥9.0 billion, and the Other Businesses segment ¥8.1 billion. Capital investment in the Transportation Operations segment was mainly for railroad infrastructure centered on safety enhancements, and purchases of new rolling stock.

The Group's capital investments in the Sales of Goods and Food Services, Real Estate Business, and Other Businesses segments were mainly for construction of new facilities, and renovation of aging facilities. The Group has already announced its plans for renovation of Osaka Station and development of the New North Building, as well as its plan for expansion of Acty Osaka Building. As of the time of the preparation of this report, the JR-West Group anticipates capital investment for these projects to be approximately ¥170 billion, with completion scheduled for fiscal 2012.

Further, JR-West has formulated a Safety Enhancement Plan in response to the serious accident that occurred between Tsukaguchi and Amagasaki stations on the Fukuchiyama Line, which includes infrastructure-related measures such as operational safety equipment necessary to further enhance safety, and calls for the ongoing consideration of various initiatives to bolster safety.

■ Liquidity and Financing

The JR-West Group receives substantial amounts of cash on a daily basis from Transportation Operations, ensuring a sufficient

level of cash flow. At the same time, however, we recognize that improving financial efficiency is extremely important in terms of business management. As part of our efforts in this area we introduced a cash management service (CMS) in October 2002, ensuring effective utilization of Group funds.

In terms of financing, JR-West typically procures funds required for repayment of existing debt, capital investments or other expenses, in an amount not covered by the Group's cash flows. Financing methods, including corporate bonds and long-term bank loans, are determined through a comprehensive consideration of market trends, interest rates, and other factors.

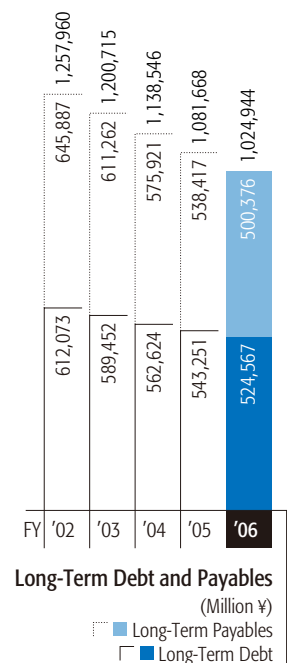
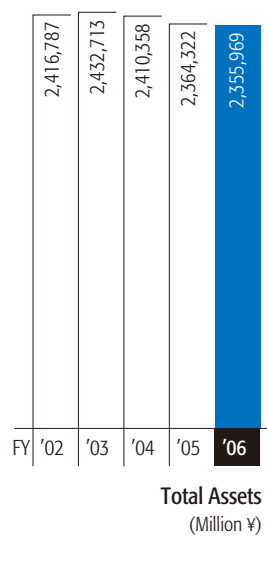
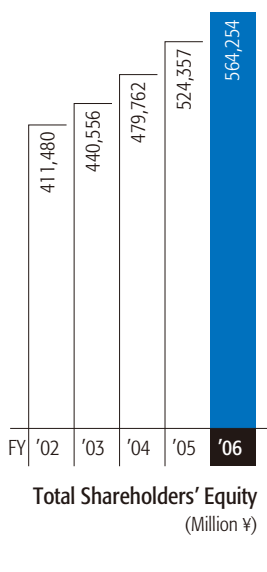
Basic Management Policies

The JR-West Group will work to further develop a corporate culture that places a top priority on safety, concentrating on its core business of railway operations, and will redouble its efforts with regard to the principle of "safety first."

The Group will also develop its Sales of Goods and Food Services and Real Estate Business with a focus on providing services mainly to railway passengers, and on efficient utilization of assets in the vicinity of railway stations.

In its business plans, the JR-West Group seeks to leverage its collective power, strengthening its business foundation through efficient utilization of management resources and other measures, with the aim of realizing sustainable growth and an increase in corporate value.

Looking forward, amid a difficult operating environment, JR-West will continue to strive to improve its corporate value by accurately identifying market trends, maximizing its management assets, and making a determined effort to implement various measures in a strategic and timely manner so as to provide a service with which passengers feel at ease and repeatedly choose to use. These efforts will be made in accordance with the newly formulated Corporate Philosophy statement and Safety Charter, and founded on the principle of safety as a priority.



Note: Long-term debt and payables includes the current portion of long-term debt and long-term payables.

Consolidated Balance Sheets

West Japan Railway Company and its consolidated subsidiaries
March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
ASSETS				
Current assets:				
Cash (Notes 3 and 11)	¥ 56,093	¥ 62,901	¥ 71,317	\$ 479
Marketable securities (Note 4)	3	2	12	0
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	2,133	2,788	1,641	18
Trade	83,564	72,411	63,901	714
Less allowance for doubtful accounts	(351)	(308)	(352)	(3)
Inventories (Note 6)	17,939	15,696	16,241	153
Income taxes refundable (Note 14)	194	48	55	1
Deferred income taxes (Note 14)	19,426	19,079	25,436	166
Prepaid expenses and other current assets (Note 5)	28,855	41,500	24,111	246
Total current assets	207,859	214,120	202,366	1,776
Investments:				
Unconsolidated subsidiaries and affiliates (Note 7)	38,264	36,927	35,921	327
Other securities (Notes 4 and 11)	26,762	16,767	20,267	228
	65,027	53,695	56,188	555
Property, plant and equipment (Notes 8, 9, 10, 11 and 12):				
Land	655,311	662,910	678,705	5,600
Buildings and structures	2,639,039	2,614,754	2,606,402	22,555
Machinery, equipment and vehicles	1,004,483	976,969	954,744	8,585
Tools, furniture and fixtures	84,552	79,684	96,419	722
Construction in progress	59,442	69,296	67,705	508
	4,442,829	4,403,613	4,403,978	37,972
Less accumulated depreciation	(2,491,949)	(2,420,952)	(2,362,251)	(21,298)
Property, plant and equipment, net	1,950,880	1,982,660	2,041,726	16,674
Deferred income taxes (Note 14)	88,022	73,014	65,030	752
Other assets	44,179	40,831	45,047	377
Total assets	¥2,355,969	¥2,364,322	¥2,410,358	\$20,136

See accompanying notes to consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term loans (Note 11)	¥ 14,445	¥ 13,420	¥ 9,943	\$ 123
Current portion of long-term debt (Notes 10 and 11)	88,904	30,888	59,273	759
Current portion of long-term payables (Note 12)	36,170	38,623	37,723	309
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	5,823	4,356	3,534	49
Trade	145,145	126,566	123,784	1,240
Prepaid railway fares received	30,503	30,434	30,080	260
Deposits and advances received	115,269	159,232	156,169	985
Accrued expenses	65,419	62,587	60,601	559
Accrued income taxes (Note 14)	27,946	21,307	29,293	238
Allowance for loss on business reorganization (Note 1(11))	—	—	20,660	—
Allowance for loss on restructuring of a subsidiary (Note 1(12))	259	—	—	2
Other current liabilities	11,259	9,848	13,876	96
Total current liabilities	541,148	497,263	544,942	4,625
Long-term debt (Notes 10 and 11)	435,663	512,362	503,351	3,723
Long-term payables (Note 12)	464,205	499,794	538,197	3,967
Accrued retirement benefits (Note 16)	201,677	199,779	208,934	1,723
Allowance for antiseismic reinforcement measures (Note 1(13))	14,400	—	—	123
Allowance for environmental safety measures (Note 1(14))	7,543	—	—	64
Deferred income taxes (Note 14)	76	76	977	0
Other long-term liabilities (Note 11)	99,230	105,211	110,594	848
Minority interests	27,769	25,476	23,598	237
Contingent liabilities (Note 19)				
Shareholders' equity (Notes 18 and 23):				
Common stock:				
Authorized – 8,000,000 shares;				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	854
Capital surplus	55,000	55,000	55,000	470
Retained earnings	398,910	365,303	319,491	3,409
Net unrealized holding gain on securities	10,670	4,381	5,597	91
Less treasury stock, at cost – 885 shares at March 31, 2006, 2005 and 2004	(327)	(327)	(327)	(2)
Total shareholders' equity	564,254	524,357	479,762	4,822
Total liabilities, minority interests and shareholders' equity	¥2,355,969	¥2,364,322	¥2,410,358	\$20,136

Consolidated Statements of Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues	¥1,240,098	¥1,220,847	¥1,215,735	\$10,599
Operating expenses (Note 1 (10)):				
Transportation, other services and cost of sales	899,513	880,106	882,886	7,688
Selling, general and administrative expenses (Note 13)	205,367	207,640	205,918	1,755
	1,104,880	1,087,747	1,088,804	9,443
Operating income	135,218	133,100	126,930	1,155
Other income (expenses):				
Interest and dividend income	372	330	398	3
Interest expense	(39,799)	(42,653)	(45,736)	(340)
Equity in earnings of affiliates	1,214	239	1,018	10
Reversal of long-term accrued rail usage charges (Note 1(8))	—	—	52,797	—
Amortization of prior service cost (Note 1(9))	4,039	(715)	(38,669)	34
Loss on impairment of fixed assets (Notes 2 and 9)	—	(4,429)	—	—
Provision of allowance for loss on business reorganization (Note 1 (11))	—	—	(20,660)	—
Provision of allowance for antiseismic reinforcement measures (Note 1(13))	(14,400)	—	—	(123)
Provision of allowance for environmental safety measures (Note 1(14))	(7,543)	—	—	(64)
Other, net (Note 17)	794	19,539	12,654	6
	(55,321)	(27,688)	(38,196)	(472)
Income before income taxes and minority interests	79,896	105,411	88,734	682
Income taxes (Note 14):				
Current	50,280	45,412	49,832	429
Deferred	(19,306)	(1,424)	(10,033)	(165)
	30,974	43,987	39,799	264
Income before minority interests	48,922	61,424	48,935	418
Minority interests	(2,396)	(2,428)	(1,918)	(20)
Net income	¥ 46,525	¥ 58,996	¥ 47,016	\$ 397

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
Common stock:				
Balance at beginning and end of the year	¥100,000	¥100,000	¥100,000	\$ 854
Capital surplus:				
Balance at beginning and end of the year	¥ 55,000	¥ 55,000	¥ 55,000	\$ 470
Retained earnings:				
Balance at beginning of the year	¥365,303	¥319,491	¥281,695	3,122
Add:				
Net income	46,525	58,996	47,016	397
Increase in retained earnings resulting from:				
Initial inclusion of subsidiaries in consolidation	—	—	926	—
Merger of consolidated and unconsolidated subsidiaries	215	9	36	1
Appropriations:				
Cash dividends	(13,000)	(13,000)	(10,000)	(111)
Bonuses to directors and corporate auditors	(92)	(193)	(183)	(0)
Decrease in retained earnings resulting from:				
Initial inclusion of a subsidiary in consolidation	(41)	—	—	(0)
Balance at end of the year	¥398,910	¥365,303	¥319,491	\$3,409
Net unrealized holding gain on securities:				
Balance at beginning of the year	¥ 4,381	¥ 5,597	¥ 4,188	\$ 37
Net change	6,289	(1,216)	1,408	53
Balance at end of the year	¥ 10,670	¥ 4,381	¥ 5,597	\$ 91

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 79,896	¥105,411	¥ 88,734	\$ 682
Adjustments for:				
Depreciation and amortization	111,900	113,682	115,361	956
Loss on impairment of fixed assets	—	4,429	—	—
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	58,328	38,526	28,988	498
Loss on disposal of property, plant and equipment	13,368	19,342	9,024	114
Amortization of goodwill arising from consolidation	(18)	181	104	(0)
Decrease in allowance for doubtful accounts	(717)	(48)	(78)	(6)
Increase (decrease) in accrued retirement benefits	1,711	(9,154)	27,082	14
Decrease in accrued bonuses	(1,625)	(1,194)	(1,406)	(13)
Increase in other accruals	22,212	9	16,032	189
Interest and dividend income	(372)	(330)	(398)	(3)
Interest expense	39,799	42,653	45,736	340
Net gain on sales of investments in securities	(77)	(25,035)	(7,512)	(0)
Equity in earnings of affiliates	(1,214)	(239)	(1,018)	(10)
Gain on contributions received for construction	(58,724)	(38,919)	(29,792)	(501)
Increase in notes and accounts receivable	(8,476)	(9,709)	(1,327)	(72)
(Increase) decrease in inventories	(2,159)	544	(2,095)	(18)
(Decrease) increase in notes and accounts payable	(12,877)	4,065	(72,696)	(110)
(Decrease) increase in accrued consumption taxes	(821)	(4,611)	4,023	(7)
Other	10,050	(518)	11,633	85
Subtotal	250,184	239,084	230,397	2,138
Interest and dividend income received	373	323	389	3
Interest paid	(40,271)	(43,044)	(46,178)	(344)
Income taxes paid	(46,205)	(53,392)	(44,378)	(394)
Net cash provided by operating activities	164,080	142,970	140,229	1,402
Cash flows from investing activities				
Payments for time deposits with a maturity of more than three months	(12,160)	(660)	(771)	(103)
Proceeds from time deposits with a maturity of more than three months	12,160	661	816	103
Purchases of property, plant and equipment	(156,155)	(145,371)	(142,773)	(1,334)
Proceeds from sales of property, plant and equipment	4,172	7,039	5,551	35
Contributions received for construction	42,889	40,284	36,719	366
Increase in investments in securities	(513)	(1,556)	(650)	(4)
Proceeds from sales of investments in securities	329	26,436	10,243	2
Payments on long-term loans receivable	(282)	(10,129)	(328)	(2)
Collection of long-term loans receivable	10,396	672	454	88
Other	(2,612)	(2,295)	(953)	(22)
Net cash used in investing activities	(101,765)	(84,918)	(91,691)	(869)
Cash flows from financing activities				
Increase in short-term loans	2,863	1,437	1,126	24
Proceeds from long-term loans	12,300	32,000	39,500	105
Proceeds from issuance of bonds	—	10,000	20,000	—
Redemption of bonds	—	—	(25,000)	—
Repayment of long-term loans	(30,983)	(61,373)	(61,327)	(264)
Repayment of long-term payables	(38,425)	(37,504)	(35,340)	(328)
Cash dividends paid to the Company's shareholders	(13,001)	(12,972)	(10,011)	(111)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(112)	(112)	(112)	(0)
Other	(2,038)	2,045	3,174	(17)
Net cash used in financing activities	(69,397)	(66,480)	(67,991)	(593)
Net decrease in cash and cash equivalents	(7,083)	(8,427)	(19,453)	(60)
Cash and cash equivalents at beginning of the year	62,241	70,655	89,310	531
Increase in cash and cash equivalents arising from:				
Merger of consolidated and unconsolidated subsidiaries and initial consolidation of subsidiaries	275	14	798	2
Cash and cash equivalents at end of the year (Note 3)	¥55,433	¥62,241	¥70,655	\$473

See accompanying notes to consolidated financial statements.

1. Basis of Financial Statements and Summary of Significant Accounting Policies

Basis of Financial Statements

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

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company and its consolidated subsidiaries are incorporated and operate. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥117 = U.S.\$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2005 to the 2006 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

As permitted, amounts of less than one million yen are omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or undisposed losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable. The difference, not significant in amount, between the cost of investments in subsidiaries and the equity in their net assets at their dates of acquisition is amortized over a period of five years on a straight-line basis.

The balance sheet date of one consolidated subsidiary is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary.

(2) Cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(3) Investments in securities

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

(4) Derivative financial instruments

Derivative financial instruments are stated at fair value.

(5) Inventories

Inventories are stated at cost determined primarily by the following methods:

Merchandise:	The last purchase price method or the retail cost method;
Real estate for sale and contracts in process:	The individual identification method;
Rails, materials and supplies:	The moving average method.

(6) Property, plant and equipment

Property, plant and equipment is stated at cost (see Note 8). Depreciation is determined primarily by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures included in buildings and structures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

(7) Leases

The Company and its consolidated subsidiaries lease certain equipment under noncancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(8) Long-term accrued rail usage charges

Up to the year ended March 31, 2000, the Company expensed rail usage charges for the JR Tozai Line payable to Kansai Rapid Railway Co., Ltd. ("KRRCL") at a periodic payment amount scheduled to increase by 10% every three years. As an economic recovery in Japan has taken longer than anticipated and the population of students along this line has been decreasing, the Company is unable to expect any increase in revenue from the line to offset the corresponding increase in expenses. Thus, effective April 1, 2000, the Company began expensing rail usage charges at an amount allocated evenly over the thirty-year period of the rental agreement.

The Company and KRRCL have reached an agreement under which they will determine the annual rail usage charges for years subsequent to April 1, 2004 based on a discussion to be held every three years and on any interest-rate fluctuation as well as other factors. KRRCL obtained the approval of the Minister of Land, Infrastructure and Transport for this agreement on February 25, 2004. As the Company's obligation to pay these rail usage charges has now been extinguished, the Company reversed long-term accrued rail usage charges of ¥52,797 million at March 31, 2004 and recorded this as "Reversal of long-term accrued rail usage charges," a component of other income in the consolidated statement of income for the year ended March 31, 2004.

(9) Accrued retirement benefits

Accrued retirement benefits for employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The net retirement benefit obligation at transition of ¥321,242 million is being amortized principally over a ten-year period.

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

Prior service cost is principally charged to income when incurred. Prior service cost of ¥38,916 million was incurred following an amendment to the employees' early retirement plans and the implementation of re-employment plans. This was expensed primarily as "Amortization of prior service cost" and was presented as a component of other expenses in the consolidated statement of income for the year ended March 31, 2004.

(10) Income taxes

Deferred income taxes are recognized by the liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

In accordance with a law on the amendment of local tax laws, and so forth, which went into effect on April 1, 2004, a corporation with capital in excess of ¥100 million is subject to business scale taxation on the basis of the total amount of value added, the size of its capital and its taxable income. Based on the new accounting standard for business scale taxation, the Company and certain of its consolidated subsidiaries accounted for business scale taxation with respect to the amount of value added and capital as a component of operating expenses. Consequently, operating expenses for the year ended March 31, 2005 increased by ¥2,572 million and income before income taxes and minority interests for the year ended March 31, 2005 decreased by ¥2,572 million.

(11) Allowance for loss on business reorganization

The allowance for loss on business reorganization was provided for loss on the reorganization of the business of Tamba Kogen Kaihatsu Co., Ltd. ("TKKCL"), a consolidated subsidiary, at an estimate of the related amount to be borne by the Company.

At an extraordinary meeting of the shareholders held on April 26, 2004, the shareholders of TKKCL approved a resolution authorizing the transfer of its entire golf course management business to the Company and for the subsequent liquidation of TKKCL.

(12) Allowance for loss on restructuring of a subsidiary

Allowance for loss on restructuring of a subsidiary provides for losses related to the business restructuring of an unconsolidated subsidiary at an estimate of the amount to be borne by the consolidated subsidiaries.

(13) Allowance for antiseismic reinforcement measures

At March 31, 2006, to meet certain expenditures including the removal and restoration costs relating to quake-proof reinforcement work on the columns of the elevated railroads of the Shinkansen Line, the Company provided an allowance for such expenses at a reasonably estimated expenses amount.

The quake-proof reinforcement project is scheduled to be completed no later than the year ending March 31, 2009, considering the columns of the elevated railroads of the Joetsu Shinkansen Line damaged by the Niigata Chuetsu Earthquake on October 23, 2004. No estimate of other related expenses can be provided as these cannot be reasonably estimated at the present time.

(14) Allowance for environmental safety measures

To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company, an allowance at an amount reasonably estimated has been provided at March 31, 2006. The estimate was calculated based on the unit costs publicized by the Japan Environment Safety Co., Ltd. Other expenses related to the disposal which cannot be reasonably estimated at the present time have not been provided for.

(15) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Derivatives such as forward foreign exchange contracts and interest-rate swaps are utilized to manage foreign currency and interest-rate risk. Forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding forward foreign exchange contract rates. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally been applied to the underlying debt.

2. Adoption of New Accounting Standard

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets as early adoption of this standard was permitted commencing the fiscal year ended or subsequent to March 31, 2004. The effect of the adoption of this standard was to decrease income before income taxes and minority interests by ¥4,429 million for the year ended March 31, 2005.

3. Cash and Cash Equivalents

The balances of cash reflected in the consolidated balance sheets at March 31, 2006, 2005 and 2004 are reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Cash	¥56,093	¥62,901	¥71,317	\$479
Time deposits with an original maturity in excess of three months, included in cash	(660)	(660)	(661)	(5)
Cash and cash equivalents	¥55,433	¥62,241	¥70,655	\$473

4. Investments in Securities

The accounting standard for financial instruments requires that, except for investments in unconsolidated subsidiaries and affiliates, all other investments in securities be classified as follows: trading, held-to-maturity, or other securities. The Company and its consolidated subsidiaries did not have any investments classified as trading or held-to-maturity securities at March 31, 2006, 2005 or 2004. The standard further requires that other securities be stated at fair value, with any unrealized holding gain or loss reported as a separate component of shareholders' equity, net of deferred income taxes.

Investments in marketable securities at March 31, 2006, 2005 and 2004 are summarized as follows:

	2006			2005		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥6,379	¥23,317	¥16,938	¥6,430	¥13,245	¥6,814
Debt securities:						
Government bonds	—	—	—	25	25	0
Subtotal	6,379	23,317	16,938	6,455	13,270	6,814
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	109	78	(31)	109	78	(31)
Debt securities:						
Government bonds	25	25	(0)	—	—	—
Subtotal	135	103	(31)	109	78	(31)
Total	¥6,514	¥23,420	¥16,906	¥6,565	¥13,349	¥6,783

	2004			2006		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 5,537	¥15,059	¥9,522	\$54	\$199	\$144
Debt securities:						
Government bonds	4,019	4,022	3	—	—	—
Subtotal	9,556	19,082	9,525	54	199	144
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	596	546	(49)	0	0	(0)
Debt securities:						
Government bonds	21	21	(0)	0	0	(0)
Subtotal	617	567	(49)	1	0	(0)
Total	¥10,174	¥19,649	¥9,475	\$55	\$200	\$144

Sales of investments in securities for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	2006	2005	2004	2006
Sales	¥329	¥26,436	¥10,243	\$2
Aggregate gain	77	25,050	7,609	0
Aggregate loss	—	14	96	—

At March 31, 2006, the redemption schedule for investments in securities by maturity date was as follows:

	2006		2006	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Government bonds	¥3,000	¥25	\$25	\$0
Corporate bonds	3	—	0	—
	¥3,003	¥25	\$25	\$0

The carrying value of investments in non-marketable securities at March 31, 2006, 2005 and 2004 was as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Unlisted equity securities	¥3,249	¥3,414	¥4,634	\$27
Other	3,096	4,005	7	26
	¥6,345	¥7,419	¥4,642	\$54

5. Financial Assets Received as Collateral

At March 31, 2005, the Company held government bonds received from a financial institution as collateral for short-term loans extended to this institution by the Company. These assets were included in "prepaid expenses and other current assets," a component of current assets in the consolidated balance sheet at March 31, 2005. The Company had the right to dispose of them without any restrictions. The fair value of these financial assets totaled ¥9,999 million at March 31, 2005.

6. Inventories

Inventories at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Real estate for sale	¥ —	¥ 16	¥ 45	\$ —
Rails, materials, supplies, merchandise and contracts in process	17,939	15,680	16,196	153
	¥17,939	¥15,696	¥16,241	\$153

7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Investments in:				
Unconsolidated subsidiaries	¥ 4,861	¥ 5,237	¥ 4,704	\$ 41
Affiliates	33,402	31,690	31,216	285
	¥38,264	¥36,927	¥35,921	\$327

8. Property, Plant and Equipment

Contributions for the construction of railway facilities granted by national and municipal governments and others are deducted directly from the acquisition costs of the related fixed assets as stipulated in the Corporation Tax Law of Japan. Compensation for the expropriation of properties received from national and municipal governments and others, in accordance with the Corporation Tax Law, are also deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

The contributions deducted from property, plant and equipment for the years ended March 31, 2006, 2005 and 2004 totaled ¥58,328 million (\$498 million), ¥38,526 million and ¥28,988 million, respectively. The accumulated contributions deducted from property, plant and equipment at March 31, 2006, 2005 and 2004 amounted to ¥473,299 million (\$4,045 million), ¥419,147 million and ¥382,233 million, respectively.

The compensation deducted from property, plant and equipment to replace the properties expropriated for the years ended March 31, 2006, 2005 and 2004 totaled ¥4,388 million (\$37 million), ¥6,510 million and ¥6,777 million, respectively.

9. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their fixed assets relating to transportation, sales of goods and food services and other businesses, primarily at each business which manages the receipts and payments separately. They also group their fixed assets in the real estate business, fixed assets which they have decided to dispose of, and idle assets, primarily at each asset. Consequently, the Company and its consolidated subsidiaries wrote down the following 24 items to their recoverable value and recorded the related loss on impairment of fixed assets of ¥4,429 million in the consolidated statement of income for the year ended March 31, 2005:

	Millions of yen
	2005
Assets to be disposed of:	
Company houses held in Osaka City and other – 17 items:	
Land	¥1,513
Buildings and structures	791
Total	¥2,305
Idle assets:	
Land held in Mihara City, Hiroshima Prefecture and other – 5 items:	
Land	¥1,824
Buildings and structures	7
Total	¥1,832
Other assets:	
Land for rental held for rental purposes in Osaka City and other – 2 items:	
Land	¥ 282
Buildings and structures	8
Total	¥ 291

The recoverable value of the assets to be disposed of and the idle assets presented in the above tables was measured primarily at net realizable value and was calculated based principally on the appraisal value published by the tax authorities. The recoverable value of other assets presented in the above table was measured principally by value in use based on the respective estimated future cash flows discounted at 5% per annum.

10. Short-Term Loans and Long-Term Debt

Short-term loans represent loans on deeds due within one year. The annual interest rates applicable to such loans outstanding at March 31, 2006, 2005 and 2004 ranged from 0.15% to 0.38%, from 0.15% to 1.375%, and from 0.15% to 1.38%, respectively.

Long-term debt at March 31, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Secured West Japan Railway bonds, payable in yen, at rates ranging from 1.53% to 3.45%, due from 2009 through 2019	¥175,000	¥175,000	¥175,000	\$1,495
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.28%, due from 2022 through 2024	45,000	45,000	35,000	384
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.0% to 8.5%, due in installments from 2007 through 2021	84,852	95,695	106,538	725
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.79% to 4.09%,	195,689	202,826	220,648	1,672
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 5.2%, due in installments from 2007 through 2019	7,815	8,519	9,223	66
Secured 1.89% loans from banks and insurance companies, payable in yen, due in installments through 2005	—	—	5	—
Other	16,210	16,210	16,210	138
	524,567	543,251	562,624	4,483
Less current portion	(88,904)	(30,888)	(59,273)	(759)
	¥435,663	¥512,362	¥503,351	\$3,723

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 88,904	\$ 759
2008	49,352	421
2009	88,779	758
2010	52,765	450
2011	30,958	264
2012 and thereafter	213,807	1,827
	¥524,567	\$4,483

11. Pledged Assets

Assets pledged at March 31, 2006 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Bank deposits included in cash	¥ 230	\$ 1
Investments in other securities	371	3
Land	190	1
Buildings and structures	30,697	262
	¥31,488	\$269

The indebtedness secured by such collateral at March 31, 2006 was as follows:

	Millions of yen	Millions of U.S. dollars
Current portion of long-term loans included in current portion of long-term debt	¥ 705	\$ 6
Long-term loans included in long-term debt	7,110	60
Other long-term liabilities	2,171	18
	¥9,986	\$85

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

12. Long-Term Payables

Long-term payables at March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2007 through 2017	¥300,899	¥338,360	¥374,935	\$2,571
Fixed interest portion at 6.35% and 6.55%, due in installments from 2007 through 2052	189,698	190,089	190,455	1,621
Other	9,778	9,967	10,531	83
	500,376	538,417	575,921	4,276
Less current portion	(36,170)	(38,623)	(37,723)	(309)
	¥464,205	¥499,794	¥538,197	\$3,967

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from the Shinkansen Holding Corporation ("SHC") for the total price of ¥974,111 million. The Company is currently liable to the Japan Railway Construction, Transport & Technology Agency ("JRJT") for this purchase. In accordance with the terms of the purchase agreement, the interest rate applied to the variable interest portion of the payables for each fiscal year will be adjusted every year to a weighted-average interest rate to be determined based on the interest rate of certain of JRJT's long-term debt (as defined in the purchase agreement) assumed from SHC and outstanding as of April 1 of each respective year. The variable interest rates for the years ended March 31, 2006, 2005 and 2004 were 4.37%, 4.50% and 4.57%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 36,170	\$ 309
2008	22,807	194
2009	23,795	203
2010	24,827	212
2011	25,904	221
2012 and thereafter	366,870	3,135
	¥500,376	\$4,276

13. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,770 million (\$57 million), ¥6,170 million and ¥6,026 million for the years ended March 31, 2006, 2005 and 2004, respectively.

14. Income Taxes

The aggregate statutory tax rates applicable to the Company and its consolidated subsidiaries were 40.69% for the years ended March 31, 2006 and 2005, and 42.24% for the year ended March 31, 2004.

The effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2004 differs from the statutory tax rate for the following reasons:

	2004
Statutory tax rate	42.24%
Permanent non-deductible expenses	0.52
Per capita portion of inhabitants' taxes	0.74
Special corporation tax deduction	(2.23)
Loss on business reorganization of a subsidiary	4.57
Other	(0.99)
Effective tax rate	44.85%

The presentation of corresponding information for the years ended March 31, 2006 and 2005 has been omitted because the difference between the statutory tax rate and the effective tax rates was less than five percent of the statutory tax rate.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 14,010	¥ 14,612	¥ 15,143	\$ 119
Loss on business reorganization of a subsidiary	—	—	4,740	—
Accrued enterprise tax included in accrued income taxes	2,659	2,171	2,903	22
Accrued retirement benefits	81,860	71,004	64,782	699
Unrealized gain on property, plant and equipment	6,193	5,853	5,230	52
Tax loss carryforwards	445	226	944	3
Other	20,253	10,039	8,096	173
Gross deferred tax assets	125,422	103,908	101,840	1,071
Valuation allowance	(501)	(625)	(771)	(4)
Total deferred tax assets	124,920	103,282	101,069	1,067
Deferred tax liabilities:				
Unrealized holding gain on securities	(6,882)	(2,762)	(3,865)	(58)
Contributions for construction deducted from acquisition costs of property, plant and equipment	(9,104)	(6,944)	(6,091)	(77)
Gain on valuation of assets of consolidated subsidiaries	(1,443)	(1,443)	(1,470)	(12)
Other	(117)	(115)	(153)	(1)
Total deferred tax liabilities	(17,548)	(11,265)	(11,580)	(149)
Deferred tax assets, net	¥107,372	¥ 92,017	¥ 89,488	\$ 917

15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006, 2005 and 2004, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases under which the Company and its consolidated subsidiaries are lessees and which are currently accounted for as operating leases:

	Millions of yen			Millions of U.S. dollars		
	2006			2005		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥ 425	¥ 124	¥ 301	¥ 361	¥ 104	¥ 257
Tools, furniture and fixtures	3,634	2,949	684	4,657	3,627	1,029
Software included in other assets	611	391	220	745	410	334
	¥4,671	¥3,465	¥1,206	¥5,764	¥4,142	¥1,621
	Millions of yen			Millions of U.S. dollars		
	2004			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥ 164	¥ 83	¥ 80	\$ 3	\$ 1	\$ 2
Tools, furniture and fixtures	4,751	3,128	1,622	31	25	5
Software included in other assets	497	269	228	5	3	1
	¥5,412	¥3,481	¥1,931	\$39	\$29	\$10

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2006, 2005 and 2004 totaled ¥713 million (\$6 million), ¥1,013 million and ¥978 million, respectively. These amounts are equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 480	\$ 4
2008 and thereafter	725	6
	¥1,206	\$10

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006, 2005 and 2004 for finance lease transactions in which a consolidated subsidiary of the Company is the lessor and which are currently accounted for as operating leases:

	2006			2005		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥2,338	¥ 951	¥1,386	¥2,388	¥ 776	¥1,612
Tools, furniture and fixtures	3,483	1,486	1,997	2,913	1,432	1,481
	¥5,822	¥2,438	¥3,383	¥5,301	¥2,208	¥3,093

	2004			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥1,822	¥ 517	¥1,305	\$ 19	\$ 8	\$ 11
Tools, furniture and fixtures	2,956	1,557	1,398	29	12	17
	¥4,779	¥2,075	¥2,704	\$49	\$20	\$28

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2006, 2005 and 2004 were ¥1,053 million (\$9 million), ¥866 million and ¥875 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2006, 2005 and 2004, which was computed by the straight-line method over the respective lease terms, amounted to ¥933 million (\$7 million), ¥762 million and ¥776 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥1,041	\$ 8
2008 and thereafter	2,825	24
	¥3,866	\$33

16. Retirement Benefit Plans

The Company and its consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans covering substantially all employees who are entitled to lump-sum payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which the termination of employment occurs. Certain consolidated subsidiaries have a funded defined contribution pension plan administered by a government agency.

The funded and accrued status of the retirement benefit plans of the Company and its consolidated subsidiaries and the amounts recognized in the consolidated balance sheets at March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Retirement benefit obligation	¥(401,479)	¥(408,214)	¥(451,651)	\$(3,431)
Plan assets at fair value	11,851	9,916	9,585	101
Unfunded retirement benefit obligation	(389,628)	(398,298)	(442,066)	(3,330)
Unrecognized net retirement benefit obligation at transition	130,741	162,200	193,719	1,117
Unrecognized actuarial loss	57,168	36,157	39,169	488
Unrecognized prior service cost	187	245	273	1
Net retirement benefit obligation	(201,529)	(199,694)	(208,903)	(1,722)
Prepaid pension cost	147	84	30	1
Accrued retirement benefits	¥(201,677)	¥(199,779)	¥(208,934)	\$(1,723)

The components of retirement benefit expenses for the years ended March 31, 2006, 2005 and 2004 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Service cost	¥15,294	¥16,713	¥17,888	\$130
Interest cost	8,133	9,020	9,741	69
Expected return on plan assets	(229)	(221)	(198)	(1)
Amortization of net retirement benefit obligation at transition	31,458	31,518	31,468	268
Amortization of actuarial loss	4,753	4,666	3,905	40
Amortization of prior service cost	(4,039)	743	38,680	(34)
	¥55,372	¥62,440	¥101,486	\$473

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

	2006	2005	2004
Discount rate	Principally 2.0%	Principally 2.0%	Principally 2.0%
Expected rate of return on plan assets	Principally 2.5%	Principally 2.5%	Principally 2.5%

17. Other, Net

Expenditures related to a train accident on the Fukuchiyama Line amounted to ¥4,245 million (\$36 million) and have been included in "Other, net," a component of "other income (expenses)" in the accompanying consolidated statement of income for the year ended March 31, 2006. The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for this accident as well as other related costs; however, it is unable to estimate the amounts of such expenses on a reasonable basis at the present time.

18. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code further stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity. The Company's legal reserve amounted to ¥11,327 million (\$96 million) at March 31, 2006, 2005 and 2004.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distribution of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

19. Contingent Liabilities

At March 31, 2006, the Company was contingently liable for an in-substance defeasance on bonds in the amount of ¥25,000 million (\$213 million).

In addition, at March 31, 2006, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥6,087 million (\$52 million).

20. Amounts per Share

Amounts per share at March 31, 2006, 2005 and 2004 and for the years then ended were as follows:

	Yen			U.S. dollars
	2006	2005	2004	2006
Net assets	¥282,245.00	¥262,232.61	¥239,876.24	\$2,412
Net income	23,281.96	29,462.96	23,423.19	198
Cash dividends	6,000.00	6,000.00	6,500.00	51

Diluted net income per share has not been presented for the years ended March 31, 2006, 2005 and 2004 since neither the Company nor any of its consolidated subsidiaries had any potentially dilutive stock at March 31, 2006, 2005 and 2004.

Net assets per share have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date. Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year.

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

21. Derivatives

The Company's consolidated subsidiaries enter into various transactions involving derivative financial instruments in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. These transactions include interest-rate swaps and forward foreign exchange contracts; however, they do not include speculative transactions which entail high levels of risk.

The counterparties to these derivatives positions are limited to financial institutions with high credit ratings.

The Company's consolidated subsidiaries enter into these derivatives transactions in the normal course of business relating to the financing and procurement of goods and to the tour business. They enter into such transactions with the counterparties based on the resolutions or the approvals required under the internal bylaws of each company. The accounting departments or other management departments manage the related risk.

Disclosure of fair value information on derivatives has been omitted because all open positions qualified for hedge accounting.

22. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in railway, ferry, bus and other transportation services. They also engage in other activities such as sales of goods and food services and in the real estate business.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 is outlined as follows:

Millions of yen							
							2006
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	¥ 834,537	¥203,942	¥ 62,884	¥138,734	¥1,240,098	¥ —	¥1,240,098
Intergroup operating revenues and transfers	16,308	40,532	12,818	141,503	211,162	(211,162)	—
Total sales	850,846	244,474	75,702	280,238	1,451,261	(211,162)	1,240,098
Operating expenses	752,835	238,517	55,201	268,778	1,315,332	(210,452)	1,104,880
Operating income	¥ 98,010	¥ 5,957	¥ 20,501	¥ 11,459	¥ 135,928	¥ (710)	¥ 135,218
II. Assets, depreciation and capital expenditures:							
Total assets	¥1,769,956	¥ 72,445	¥286,432	¥216,572	¥2,345,406	¥ 10,563	¥2,355,969
Depreciation and amortization	91,955	2,307	10,395	7,241	111,900	—	111,900
Capital expenditures	140,262	3,548	9,080	8,186	161,078	—	161,078

Millions of yen

2005							
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	¥ 829,450	¥196,684	¥ 58,878	¥135,834	¥1,220,847	¥ —	¥1,220,847
Intergroup operating revenues and transfers	16,552	36,178	12,013	123,764	188,507	(188,507)	—
Total sales	846,002	232,862	70,891	259,598	1,409,354	(188,507)	1,220,847
Operating expenses	746,636	227,625	51,969	249,413	1,275,644	(187,897)	1,087,747
Operating income	¥ 99,365	¥ 5,237	¥ 18,922	¥ 10,185	¥ 133,710	¥ (609)	¥ 133,100
II. Assets, depreciation and capital expenditures:							
Total assets	¥1,788,767	¥ 66,699	¥286,064	¥222,013	¥2,363,546	¥ 776	¥2,364,322
Depreciation and amortization	93,803	2,132	10,702	7,043	113,682	—	113,682
Capital expenditures	126,482	3,183	7,990	10,330	147,986	—	147,986

Millions of yen

2004							
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	¥ 827,639	¥196,856	¥ 57,970	¥133,269	¥1,215,735	¥ —	¥1,215,735
Intergroup operating revenues and transfers	16,618	32,959	12,016	123,964	185,559	(185,559)	—
Total sales	844,258	229,815	69,987	257,233	1,401,294	(185,559)	1,215,735
Operating expenses	749,841	224,147	51,967	247,580	1,273,537	(184,733)	1,088,804
Operating income	¥ 94,417	¥ 5,667	¥ 18,019	¥ 9,653	¥ 127,757	¥ (826)	¥ 126,930
II. Assets, depreciation and capital expenditures:							
Total assets	¥1,818,223	¥ 67,621	¥288,274	¥237,882	¥2,412,002	¥ (1,643)	¥2,410,358
Depreciation and amortization	94,524	2,209	11,451	7,174	115,361	—	115,361
Capital expenditures	125,081	2,332	7,425	13,058	147,897	—	147,897

Millions of U.S. dollars

	2006						
	Transportation	Sales of goods and food services	Real estate business	Other	Total	Corporate and Eliminations	Consolidated
I. Operating revenues and income:							
Operating revenues from third parties	\$ 7,132	\$1,743	\$ 537	\$1,185	\$10,599	\$ —	\$10,599
Intergroup operating revenues and transfers	139	346	109	1,209	1,804	(1,804)	—
Total sales	7,272	2,089	647	2,395	12,403	(1,804)	10,599
Operating expenses	6,434	2,038	471	2,297	11,242	(1,798)	9,443
Operating income	\$ 837	\$ 50	\$ 175	\$ 97	\$ 1,161	\$ (6)	\$ 1,155
II. Assets, depreciation and capital expenditures:							
Total assets	\$15,127	\$ 619	\$2,448	\$1,851	\$20,046	\$ 90	\$20,136
Depreciation and amortization	785	19	88	61	956	—	956
Capital expenditures	1,198	30	77	69	1,376	—	1,376

As described in Note 2, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2005. The effect of this adoption was to decrease assets in the "Transportation," "Sales of goods and food services," "Real estate business" and "Other" business segments at March 31, 2005 by ¥3,607 million, ¥22 million, ¥507 million and ¥292 million, respectively.

23. Subsequent Event

The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the shareholders of the Company held on June 23, 2006:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥3,000 = U.S.\$25 per share)	¥6,000	\$51

The Board of Directors
West Japan Railway Company

We have audited the accompanying consolidated balance sheets of West Japan Railway Company and consolidated subsidiaries as of March 31, 2006, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

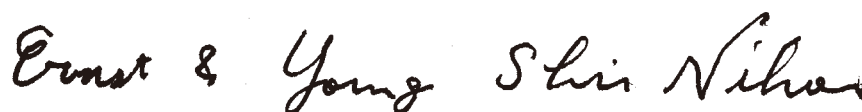
We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of West Japan Railway Company and consolidated subsidiaries at March 31, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2 to the consolidated financial statements, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.



Osaka, Japan
June 23, 2006

Ernst & Young ShinNihon

Non-Consolidated Balance Sheets

West Japan Railway Company
March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
ASSETS				
Current assets:				
Cash	¥ 44,700	¥ 36,771	¥ 42,746	\$ 382
Accounts receivable	42,409	35,892	30,607	362
Less allowance for doubtful accounts	(64)	(183)	(197)	(0)
Inventories (Note 4)	5,409	4,621	4,450	46
Deferred income taxes (Note 11)	14,521	15,073	21,050	124
Prepaid expenses and other current assets (Note 3)	24,440	35,795	17,070	208
Total current assets	131,417	127,971	115,727	1,123
Investments and advances:				
Subsidiaries and affiliates (Note 5)	137,066	134,983	138,783	1,171
Other securities	24,672	15,155	15,755	210
	161,738	150,138	154,538	1,382
Property, plant and equipment (Notes 6, 7 and 8):				
Railway (Note 9)	3,738,478	3,694,678	3,672,474	31,952
Ferry	1,375	893	886	11
Other operations	209,647	211,919	220,076	1,791
Construction in progress	57,817	67,825	66,876	494
	4,007,318	3,975,316	3,960,314	34,250
Less accumulated depreciation	(2,298,642)	(2,237,987)	(2,185,406)	(19,646)
Property, plant and equipment, net	1,708,675	1,737,329	1,774,907	14,604
Deferred income taxes (Note 11)	75,609	61,608	54,882	646
Other assets	24,725	21,029	26,837	211
Total assets	¥2,102,166	¥2,098,076	¥2,126,893	\$17,967

See accompanying notes to non-consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term loans (Notes 5 and 8)	¥ 128,567	¥ 108,978	¥ 103,166	\$ 1,098
Current portion of long-term debt (Note 8)	41,471	21,476	51,026	354
Current portion of long-term payables (Notes 5 and 9)	55,739	44,465	38,891	476
Accounts payable (Note 5)	122,473	105,366	98,599	1,046
Prepaid railway fares received	30,455	30,381	30,012	260
Deposits and advances received	63,949	97,624	94,662	546
Accrued expenses	47,999	49,961	48,697	410
Accrued income taxes (Note 11)	21,253	14,591	23,268	181
Allowance for loss on business reorganization (Note 1(8))	—	—	21,210	—
Other current liabilities	1,763	2,650	7,373	15
Total current liabilities	513,672	475,495	516,909	4,390
Long-term debt (Note 8)	397,474	426,645	408,221	3,397
Long-term payables (Notes 5 and 9)	466,469	521,627	565,873	3,986
Accrued retirement benefits	182,969	181,718	191,647	1,563
Allowance for antiseismic reinforcement measures (Note 1(9))	14,400	—	—	123
Allowance for environmental safety measures (Note 1(10))	7,543	—	—	64
Other long-term liabilities	17,407	18,275	4,861	148
Contingent liabilities (Note 15)				
Shareholders' equity (Notes 14 and 17):				
Common stock:				
Authorized – 8,000,000 shares;				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	854
Capital surplus	55,000	55,000	55,000	470
Retained earnings	337,633	315,492	280,588	2,885
Net unrealized holding gain on securities	9,596	3,822	3,792	82
Total shareholders' equity	502,229	474,315	439,381	4,292
Total liabilities and shareholders' equity	¥2,102,166	¥2,098,076	¥2,126,893	\$17,967

Non-Consolidated Statements of Income

West Japan Railway Company
Years ended March 31, 2006, 2005 and 2004

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	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating revenues:				
Transportation	¥756,506	¥750,949	¥750,813	\$6,465
Transportation incidentals	22,561	22,864	23,074	192
Other operations	17,720	17,781	18,536	151
Miscellaneous	54,492	54,882	53,467	465
	851,280	846,477	845,892	7,275
Operating expenses (Notes 1(7) and 10):				
Personnel	276,194	286,863	294,508	2,360
Energy	34,861	36,943	36,617	297
Maintenance	140,793	127,198	121,963	1,203
Depreciation	92,568	94,599	95,767	791
Rent	24,722	24,624	30,866	211
Miscellaneous taxes	28,735	29,760	28,259	245
Other	144,426	136,430	132,433	1,234
	742,302	736,420	740,416	6,344
Operating income	108,978	110,057	105,475	931
Other income (expenses):				
Interest and dividend income	586	543	462	5
Interest expense	(37,850)	(40,474)	(43,341)	(323)
Reversal of long-term accrued rail usage charges (Note 1(5))	—	—	52,797	—
Gain on sales of investments in securities	74	20,934	7,261	0
Gain on sales of property, plant and equipment	8,874	5,856	8,691	75
Loss on disposal of property, plant and equipment	(5,583)	(11,282)	(2,093)	(47)
Amortization of prior service cost (Note 1(6))	4,038	(715)	(38,511)	34
Loss on impairment of fixed assets (Notes 2 and 7)	—	(3,901)	—	—
Provision of allowance for loss on business reorganization (Note 1(8))	—	—	(21,210)	—
Provision of allowance for antiseismic reinforcement measures (Note 1(9))	(14,400)	—	—	(123)
Provision of allowance for environmental safety measures (Note 1(10))	(7,543)	—	—	(64)
Other, net (Note 13)	(116)	1,111	(1,008)	(0)
	(51,920)	(27,927)	(36,952)	(443)
Income before income taxes	57,057	82,130	68,523	487
Income taxes (Note 11):				
Current	39,327	34,877	41,007	336
Deferred	(17,410)	(752)	(9,658)	(148)
	21,917	34,124	31,349	187
Net income	¥ 35,140	¥ 48,005	¥ 37,174	\$ 300

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

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West Japan Railway Company
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Millions of U.S. dollars (Note 1)
	2006	2005	2004	2006
Common stock:				
Balance at beginning and end of the year	¥100,000	¥100,000	¥100,000	\$ 854
Capital surplus:				
Balance at beginning and end of the year	¥ 55,000	¥55,000	¥ 55,000	\$ 470
Retained earnings:				
Balance at beginning of the year	¥315,492	¥280,588	¥253,513	\$2,696
Add:				
Net income	35,140	48,005	37,174	300
Appropriations:				
Cash dividends	(13,000)	(13,000)	(10,000)	(111)
Bonuses to directors and corporate auditors	—	(101)	(99)	—
Balance at end of the year	¥337,633	¥315,492	¥280,588	\$2,885
Net unrealized holding gain on securities:				
Balance at beginning of the year	¥ 3,822	¥3,792	¥ 2,232	\$ 32
Net change	5,774	29	1,560	49
Balance at end of the year	¥ 9,596	¥3,822	¥ 3,792	\$ 82

See accompanying notes to non-consolidated financial statements.

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

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

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

The accompanying non-consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥117 = U.S.\$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the non-consolidated financial statements for the years ended March 31, 2005 and 2004 to the 2006 presentation. Such reclassifications had no effect on non-consolidated net income or shareholders' equity.

As permitted, amounts of less than one million yen are omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Summary of Significant Accounting Policies**(1) Investments in securities**

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

(2) Inventories

Real estate for sale is stated at cost determined by the individual identification method. Rails, materials and supplies are stated at cost determined by the moving average method.

(3) Property, plant and equipment

Property, plant and equipment is stated at cost (see Note 6). Depreciation is determined by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

(4) Leases

The Company leases certain equipment under noncancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(5) Long-term accrued rail usage charges

Up to the year ended March 31, 2000, the Company expensed rail usage charges for the JR Tozai Line payable to Kansai Rapid Railway Co., Ltd. ("KRRCL") at a periodic payment amount scheduled to increase by 10% every three years. As an economic recovery in Japan has taken longer than anticipated and the population of students along this line has been decreasing, the Company is unable to expect any increase in revenue from the line to offset the corresponding increase in expenses. Thus, effective April 1, 2000, the Company began expensing rail usage charges at an amount allocated evenly over the thirty-year period of the rental agreement.

The Company and KRRCL have reached an agreement under which they will determine the annual rail usage charges for years subsequent to April 1, 2004 based on a discussion to be held every three years and on any interest-rate fluctuation as well as other factors. KRRCL obtained the approval of the Minister of Land, Infrastructure and Transport for this agreement on February 25, 2004. As the Company's obligation to pay these rail usage charges has now been extinguished, the Company reversed long-term accrued rail usage charges of ¥52,797 million at March 31, 2004 and recorded this as "Reversal of long-term accrued rail usage charges," a component of other income in the non-consolidated statement of income for the year ended March 31, 2004.

(6) Accrued retirement benefits

The Company has a lump-sum severance and retirement benefit plan covering all employees who are entitled to lump-sum payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which the termination of employment occurs.

Accrued retirement benefits for employees are provided at the retirement benefit obligation, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The net retirement benefit obligation at transition of ¥301,642 million is being amortized over a ten-year period.

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

Prior service cost is charged to income when incurred. Prior service cost of ¥38,511 million was incurred following an amendment to the employees' early retirement plan and the implementation of re-employment plans. This was expensed as "Amortization of prior service cost" and was presented as a component of other expenses in the non-consolidated statement of income for the year ended March 31, 2004.

(7) Income taxes

Deferred income taxes are recognized by the liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

In accordance with a law on the amendment of local tax laws, and so forth, which went into effect on April 1, 2004, a corporation with capital in excess of ¥100 million is subject to business scale taxation on the basis of the total amount of value added, the size of its capital and its taxable income. Based on the new accounting standard for business scale taxation, the Company accounted for business scale taxation with respect to the amount of value added and capital as a component of operating expenses. Consequently, operating expenses for the year ended March 31, 2005 increased by ¥2,005 million and income before income taxes for the year ended March 31, 2005 decreased by ¥2,005 million.

(8) Allowance for loss on business reorganization

The allowance for loss on business reorganization was provided for loss on the reorganization of the business of Tamba Kogen Kaihatsu Co., Ltd. ("TKKCL"), a subsidiary, at an estimate of the related amount to be borne by the Company.

At an extraordinary meeting of the shareholders held on April 26, 2004, the shareholders of TKKCL approved a resolution authorizing the transfer of its entire golf course management business to the Company and for the subsequent liquidation of TKKCL.

(9) Allowance for antiseismic reinforcement measures

At March 31, 2006, to meet certain expenditures including the removal and restoration costs relating to quake-proof reinforcement work on the columns of the elevated railroads of the Shinkansen Line, the Company provided an allowance for such expenses at a reasonably estimated amount.

The quake-proof reinforcement project is scheduled to be completed no later than the year ending March 31, 2009, considering the columns of the elevated railroads of the Joetsu Shinkansen Line damaged by the Niigata Chuetsu Earthquake on October 23, 2004. No estimate of other related expenses can be provided as these cannot be reasonably estimated at the present time.

(10) Allowance for environmental safety measures

To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company, an allowance at an amount reasonably estimated has been provided at March 31, 2006. The estimate was calculated based on the unit costs publicized by the Japan Environment Safety Co., Ltd. Other expenses related to the disposal which cannot be reasonably estimated at the present time have not been provided for.

2. Adoption of New Accounting Standard

Effective the year ended March 31, 2005, the Company adopted a new accounting standard for the impairment of fixed assets as early adoption of this standard was permitted commencing the fiscal year ended or subsequent to March 31, 2004. The effect of the adoption of this standard was to decrease income before income taxes by ¥3,901 million for the year ended March 31, 2005.

3. Financial Assets Received as Collateral

At March 31, 2005, the Company held government bonds received from a financial institution as collateral for short-term loans extended to this institution by the Company. These assets were included in "prepaid expenses and other current assets," a component of current assets in the non-consolidated balance sheet at March 31, 2005. The Company had the right to dispose of them without any restrictions. The fair value of these financial assets totaled ¥9,999 million at March 31, 2005.

4. Inventories

Inventories at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Real estate for sale	¥ —	¥ 16	¥ 45	\$ —
Rails, materials and supplies	5,409	4,604	4,405	46
	¥5,409	¥4,621	¥4,450	\$46

5. Balances with Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Investments in:				
Subsidiaries	¥ 97,839	¥ 97,708	¥102,605	\$ 836
Affiliates	24,989	24,761	24,437	213
Advances to subsidiaries	14,237	12,513	11,740	121
	¥137,066	¥134,983	¥138,783	\$1,171

Amounts due to subsidiaries and affiliates at March 31, 2006, 2005 and 2004 are presented in the balance sheets as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Short-term loans	¥127,688	¥108,978	¥103,166	\$1,091
Current portion of long-term payables	19,569	5,842	1,168	167
Accounts payable	86,722	77,391	68,965	741
Long-term payables	2,264	21,833	27,675	19
	¥236,243	¥214,045	¥200,975	\$2,019

6. Property, Plant and Equipment

Property, plant and equipment at March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Land	¥ 638,287	¥ 645,608	¥ 661,227	\$ 5,455
Buildings	350,474	349,803	356,405	2,995
Railway fixtures	1,939,807	1,920,074	1,905,283	16,579
Rolling stock and other vehicles	754,767	734,741	716,011	6,451
Ships	1,152	672	668	9
Machinery and equipment	218,926	212,840	209,718	1,871
Furniture and fixtures	46,083	43,750	44,123	393
Construction in progress	57,817	67,825	66,876	494
	4,007,318	3,975,316	3,960,314	34,250
Less accumulated depreciation	(2,298,642)	(2,237,987)	(2,185,406)	(19,646)
Property, plant and equipment, net	¥1,708,675	¥1,737,329	¥1,774,907	\$14,604

Contributions for the construction of railway facilities granted by national and municipal governments and others are deducted directly from the acquisition costs of the related fixed assets as stipulated in the Corporation Tax Law of Japan. Compensation for the expropriation of properties received from national and municipal governments and others, in accordance with the Corporation Tax Law, are also deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

The contributions deducted from property, plant and equipment for the years ended March 31, 2006, 2005 and 2004 totaled ¥58,328 million (\$498 million), ¥38,526 million and ¥28,988 million, respectively. The accumulated contributions deducted from property, plant and equipment at March 31, 2006, 2005 and 2004 were ¥473,299 million (\$4,045 million), ¥419,147 million and ¥382,233 million, respectively.

The compensation deducted from property, plant and equipment to replace the properties expropriated for the years ended March 31, 2006, 2005 and 2004 totaled ¥4,014 million (\$34 million), ¥6,363 million and ¥6,750 million, respectively.

7. Loss on Impairment of Fixed Assets

The Company groups its fixed assets relating to railways, vessels, sales of goods and food services and other businesses at each business which manages the receipts and payments separately. It also groups its fixed assets in the real estate business, fixed assets which it has decided to dispose of, and idle, assets at each asset. Consequently, the Company wrote down the following 19 items to their recoverable value and recorded the related loss on impairment of fixed assets of ¥3,901 million in the non-consolidated statement of income for the year ended March 31, 2005:

	Millions of yen
	2005
Assets to be disposed of:	
Company houses held in Osaka City and other – 16 items:	
Land	¥1,513
Buildings and structures	580
Total	¥2,094
	Millions of yen
	2005
Idle assets:	
Land held in Mihara City, Hiroshima Prefecture and other – 3 items:	
Land	¥1,806

The recoverable value of the assets to be disposed of and the idle assets presented in the above tables was measured at net realizable value and was calculated based principally on the appraisal value published by the tax authorities.

8. Short-Term Loans and Long-Term Debt

Short-term loans represent loans on deeds due within one year. The annual interest rates applicable to such loans outstanding at March 31, 2006, 2005 and 2004 ranged from 0.15% to 0.28%, from 0.15% to 0.31%, and from 0.15% to 0.31%, respectively.

Long-term debt at March 31, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Secured West Japan Railway bonds, payable in yen, at rates ranging from 1.53% to 3.45%, due from 2009 through 2019	¥175,000	¥175,000	¥175,000	\$1,495
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.28%, due from 2022 through 2024	45,000	45,000	35,000	384
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.4% to 8.5%, due in installments from 2007 through 2018	64,535	73,511	82,487	551
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 1.05% to 2.62%, due from 2007 through 2012	138,200	138,400	150,550	1,181
Other	16,210	16,210	16,210	138
	438,945	448,121	459,247	3,751
Less current portion	(41,471)	(21,476)	(51,026)	(354)
	¥397,474	¥426,645	¥408,221	\$3,397

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 41,471	\$ 354
2008	34,876	298
2009	85,116	727
2010	50,170	428
2011	28,462	243
2012 and thereafter	198,850	1,699
	¥438,945	\$3,751

9. Long-Term Payables

Long-term payables at March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2007 through 2017	¥300,899	¥338,360	¥374,935	\$2,571
Fixed interest portion at 6.35% and 6.55%, due in installments from 2007 through 2052	189,698	190,089	190,455	1,621
Other	31,611	37,642	39,374	270
	522,209	566,092	604,764	4,463
Less current portion	(55,739)	(44,465)	(38,891)	(476)
	¥466,469	¥521,627	¥565,873	\$3,986

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from the Shinkansen Holding Corporation ("SHC") for the total price of ¥974,111 million. The Company is currently liable to the Japan Railway Construction, Transport & Technology Agency ("JRTT") for this purchase. In accordance with the terms of the purchase agreement, the interest rate applied to the variable interest portion of the payables for each fiscal year will be adjusted every year to a weighted-average interest rate to be determined based on the interest rate of certain of JRTT's long-term debt (as defined in the purchase agreement) assumed from SHC and outstanding as of April 1 of each respective year. The variable interest rates for the years ended March 31, 2006, 2005 and 2004 were 4.37%, 4.50% and 4.57%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 55,739	\$ 476
2008	23,095	197
2009	24,083	205
2010	25,115	214
2011	26,192	223
2012 and thereafter	367,982	3,145
	¥522,209	\$4,463

10. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,532 million (\$55 million), ¥6,130 million and ¥6,001 million for the years ended March 31, 2006, 2005 and 2004, respectively.

11. Income Taxes

The aggregate statutory tax rates applicable to the Company were 40.69% for the years ended March 31, 2006 and 2005, and 42.24% for the year ended March 31, 2004.

The effective tax rates reflected in the accompanying non-consolidated statements of income for the years ended March 31, 2006 and 2004 differ from the statutory tax rates for the following reasons:

	2006	2004
Statutory tax rates	40.69%	42.24%
Permanent non-deductible expenses	0.16	0.21
Per capita portion of inhabitants' taxes	0.58	0.50
Special corporation tax deduction	(2.17)	(2.77)
Loss on business reorganization of a subsidiary	—	5.92
Other	(0.85)	(0.35)
Effective tax rates	38.41%	45.75%

The presentation of corresponding information for the year ended March 31, 2005 has been omitted because the difference between the statutory tax rate and the effective tax rate was less than five percent of the statutory tax rate.

The significant components of the Company's deferred tax assets and liabilities at March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2006	2005	2004	2006
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 10,981	¥11,779	¥12,428	\$ 93
Loss on business reorganization of a subsidiary	—	—	4,740	—
Accrued social insurance premiums	1,413	1,517	—	12
Accrued enterprise tax included in accrued income taxes	2,047	1,488	2,372	17
Accrued retirement benefits	74,450	64,108	58,531	636
Allowance for antiseismic reinforcement measures	5,859	—	—	50
Allowance for environmental safety measures	3,069	—	—	26
Other	7,247	6,571	5,756	61
Total deferred tax assets	105,068	85,466	83,830	898
Deferred tax liabilities:				
Unrealized holding gain on securities	(6,583)	(2,622)	(2,618)	(56)
Contributions for construction deducted from acquisition costs of property, plant and equipment	(8,353)	(6,162)	(5,279)	(71)
Total deferred tax liabilities	(14,937)	(8,784)	(7,897)	(127)
Deferred tax assets, net	¥ 90,130	¥76,681	¥75,933	\$770

12. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006, 2005 and 2004, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen					
	2006			2005		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property for:						
Railway operations	¥ 1,815	¥ 929	¥ 886	¥1,820	¥ 674	¥1,145
Other operations	1,230	997	232	1,228	686	541
	¥3,046	¥1,928	¥1,118	¥3,048	¥1,361	¥1,686

	Millions of yen			Millions of U.S. dollars		
	2004			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property for:						
Railway operations	¥1,538	¥383	¥1,154	\$15	\$ 7	\$7
Other operations	1,260	428	830	10	8	1
	¥2,798	¥812	¥1,985	\$26	\$16	\$9

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2006, 2005 and 2004 totaled ¥747 million (\$6 million), ¥750 million and ¥571 million, respectively. These amounts are equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2007	¥ 662	\$5
2008 and thereafter	456	3
	¥1,118	\$9

13. Other, Net

Expenditures related to a train accident on the Fukuchiyama Line amounted to ¥4,245 million (\$36 million) and have been included in "Other, net," a component of "other income (expenses)" in the accompanying non-consolidated statement of income for the year ended March 31, 2006. The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for this accident as well as other related costs; however, it is unable to estimate the amounts of such expenses on a reasonable basis at the present time.

14. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code further stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying non-consolidated balance sheets and non-consolidated statements of shareholders' equity. The Company's legal reserve amounted to ¥11,327 million (\$96 million) at March 31, 2006, 2005 and 2004.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distribution of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

15. Contingent Liabilities

At March 31, 2006, the Company was contingently liable for an in-substance defeasance on bonds in the amount of ¥25,000 million (\$213 million).

In addition, at March 31, 2006, the Company was contingently liable for guarantees of loans to subsidiaries and an affiliate in the aggregate amount of ¥25,389 million (\$217 million).

16. Amounts per Share

Amounts per share at March 31, 2006, 2005 and 2004 and for the years then ended were as follows:

	Yen			U.S. dollars
	2006	2005	2004	2006
Net assets	¥251,114.87	¥237,157.57	¥219,640.07	\$2,146
Net income	17,570.30	24,002.61	18,536.62	150
Cash dividends	6,000.00	6,000.00	6,500.00	51

Diluted net income per share has not been presented for the years ended March 31, 2006, 2005 and 2004 since the Company had no potentially dilutive stock at March 31, 2006, 2005 and 2004.

Net assets per share have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date. Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year.

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

17. Subsequent Event

The following appropriation of retained earnings, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the shareholders of the Company held on June 23, 2006:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥3,000 = U.S.\$25 per share)	¥6,000	\$51

The Board of Directors
West Japan Railway Company

We have audited the accompanying non-consolidated balance sheets of West Japan Railway Company as of March 31, 2006, 2005 and 2004, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Japan Railway Company at March 31, 2006, 2005 and 2004, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 2 to the non-consolidated financial statements, the Company adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2005.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young Shin Nihon

Osaka, Japan
June 23, 2006

Ernst & Young ShinNihon