2006

Annual Report

For the year ended March 31, 2006

JR-WEST

WEST JAPAN RAILWAY COMPANY

Profile

West Japan Railway Company (JR-West) is one of the companies that was formed upon the privatization and split-up of Japanese National Railways (JNR) in 1987. JR-West provides passenger railway transportation services on a network of lines that extends through 18 prefectures and has a total route length of approximately 5,000 kilometers. This network covers around one-fifth of Japan's land area.

Railway systems in Japan evolved as a natural consequence of the large populations that accumulated and formed cities in the plains of the country. Joined like links in a chain, the opportune geographical distribution of these cities has created a solid demand base that represents one-fourth of domestic passenger volume.

While railway operations remain the core of its business, JR-West also aims to make the most of the assets that are part of its network of stations and railways to develop its retail, real estate, and hotel businesses.

CONTENTS

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "plan," or similar words. These statements discuss future expectations, identify strategies, contain projections of results of operations or of JR-West's financial condition, or state other forward-looking information.

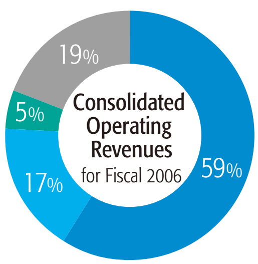
Known or unknown risks, uncertainties, and other factors could cause the actual results to differ materially from those contained in any forward-looking statements. JR-West cannot promise that the expectations expressed in these forward-looking statements will turn out to be correct. JR-West's actual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

Important risks and factors that could cause actual results to be materially different from expectations include, but are not limited to:

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

All forward-looking statements in this annual report are made as of June 23, 2006, based on information available to JR-West as of the date June 23, 2006, and JR-West does not undertake to update or revise any of its forward-looking statements or reflect future events or circumstances.

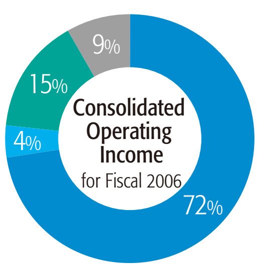
JR-West at a Glance



Transportation Operations

JR-West's railway operations cover the western part of Honshu and extend to the northern tip of Kyushu—encompassing 18 prefectures—and provide service to 43 million people, or more than 30% of Japan's total population. JR-West's Transportation Operations comprise passenger transportation for this network.

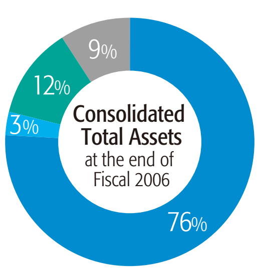
In fiscal 2006, ended March 31, 2006, consolidated operating revenues, inclusive of intersegment transactions, edged up 0.6% year on year, to ¥850.8 billion, while operating income decreased 1.4%, to ¥98.0 billion.



Sales of Goods and Food Services

JR-West's Sales of Goods and Food Services segment targets railway customers, offering a variety of shops and services, including convenience stores, food and beverage establishments, and the JR Kyoto Isetan department store, which are all located in and around station buildings.

In fiscal 2006, consolidated operating revenues, inclusive of intersegment transactions, rose 5.0% year on year, to ¥244.4 billion, with operating income up 13.7%, to ¥5.9 billion.



Real Estate Business

JR-West's Real Estate Business seeks to effectively utilize its real estate holdings in and around stations, operating shopping centers and rental sites in addition to undertaking the development of station buildings and the space under elevated tracks.

In fiscal 2006, consolidated operating revenues, inclusive of intersegment transactions, increased 6.8% year on year, to ¥75.7 billion, with operating income up 8.3%, to ¥20.5 billion.

Other Businesses

JR-West's Other Businesses segment comprises Nippon Travel Agency, the Hotel Granvia Kyoto and other hotel businesses, advertising agency business, maintenance and engineering services, and other services that seek to support railway operations.

In fiscal 2006, consolidated operating revenues, inclusive of intersegment transactions, rose 8.0% year on year, to ¥280.2 billion, with operating income up 12.5%, to ¥11.4 billion.

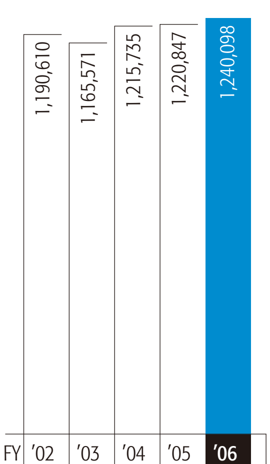
Transportation Operations
Sales of Goods and Food Services
Real Estate Business
Other Businesses
(Prior to elimination of intersegment transactions)

Consolidated Financial Highlights

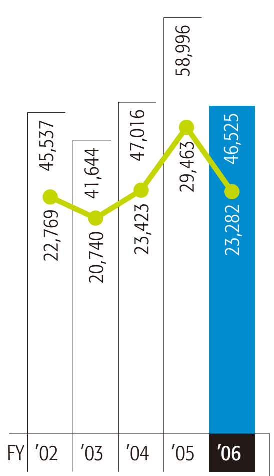
Years ended March 31
West Japan Railway Company and its consolidated subsidiaries

	Millions of yen					Millions of U.S. dollars
	2006	2005	2004	2003	2002	**2006**
Operations:						
Operating revenues	**¥ 1,240,098**	¥1,220,847	¥1,215,735	¥1,165,571	¥1,190,610	**$10,599**
Operating expenses	**1,104,880**	1,087,747	1,088,804	1,042,935	1,072,960	**9,443**
Operating income	**135,218**	133,100	126,930	122,636	117,649	**1,155**
Net income	**46,525**	58,996	47,016	41,644	45,537	**397**
Balance Sheets:						
Total assets	**¥ 2,355,969**	¥2,364,322	¥2,410,358	¥2,432,713	¥2,416,787	**$20,136**
Long-term debt and payables	**1,024,944**	1,081,668	1,138,546	1,200,715	1,257,960	**8,760**
Total shareholders' equity	**564,254**	524,357	479,762	440,556	411,480	**4,822**
					Yen	U.S. dollars
Per Share Data:						
Net income	**¥ 23,282**	¥ 29,463	¥ 23,423	¥ 20,740	¥ 22,769	**$ 198**
Cash dividends	**6,000**	6,000	6,500	5,000	5,000	**51**
Shareholders' equity	**282,245**	262,233	239,876	220,285	205,740	**2,412**
					%	
Ratios:						
Return on total assets (operating income basis)	**5.73**	5.58	5.24	5.06	4.71	
Return on operating revenues	**3.75**	4.83	3.87	3.57	3.82	
Return on total assets (net income basis)	**1.97**	2.47	1.94	1.72	1.82	
Return on equity (ROE)	**8.55**	11.75	10.22	9.78	11.04	

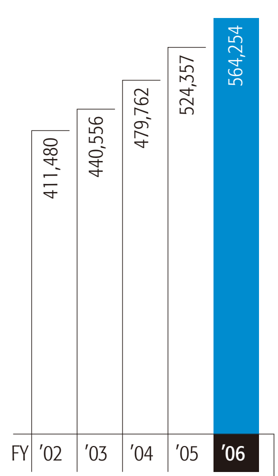
Notes: 1. Yen figures have been converted into U.S. dollars at the rate of ¥117=U.S.$1.00, the approximate exchange rate at March 31, 2006.
2. Long-term debt and payables includes the current portion of long-term debt and long-term payables.



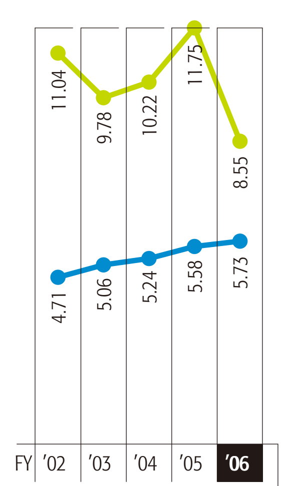
Operating Revenues
(Million ¥)



Net Income
and Net Income per Share
Net Income (Million ¥)
Net Income per Share (¥)



Total Shareholders' Equity
(Million ¥)



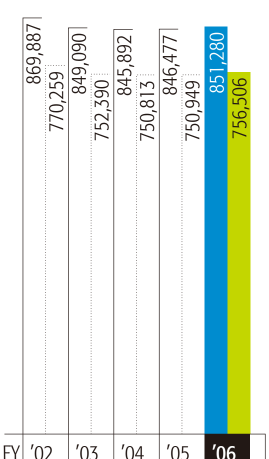
Return on Total Assets
(Operating Income Basis)
and Return on Equity
(%)
Return on Total Assets
Return on Equity

Non-Consolidated Financial Highlights

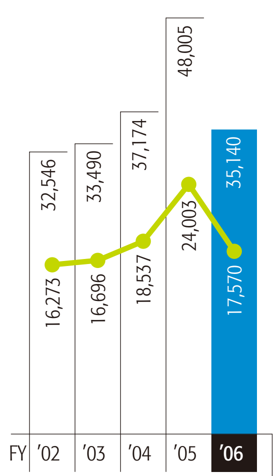
Years ended March 31
West Japan Railway Company

	Millions of yen					Millions of U.S. dollars
	2006	2005	2004	2003	2002	**2006**
Operations:						
Operating revenues	**¥ 851,280**	¥ 846,477	¥ 845,892	¥ 849,090	¥ 869,887	**$ 7,275**
Operating expenses	**742,302**	736,420	740,416	745,796	770,354	**6,344**
Operating income	**108,978**	110,057	105,475	103,293	99,533	**931**
Net income	**35,140**	48,005	37,174	33,490	32,546	**300**
Balance Sheets:						
Total assets	**¥ 2,102,166**	¥2,098,076	¥2,126,893	¥2,116,874	¥2,135,756	**$17,967**
Long-term debt and payables	**961,155**	1,014,213	1,064,012	1,116,196	1,165,477	**8,215**
Total shareholders' equity	**502,229**	474,315	439,381	410,745	388,662	**4,292**
	Yen					U.S. dollars
Per Share Data:						
Net income	**¥ 17,570**	¥ 24,003	¥ 18,537	¥ 16,696	¥ 16,273	**$ 150**
Cash dividends	**6,000**	6,000	6,500	5,000	5,000	**51**
Shareholders' equity	**251,115**	237,158	219,640	205,323	194,331	**2,146**
	%					
Ratios:						
Return on total assets (operating income basis)	**5.19**	5.21	4.97	4.86	4.54	
Return on operating revenues	**4.13**	5.67	4.39	3.94	3.74	
Return on total assets (net income basis)	**1.67**	2.27	1.75	1.58	1.48	
Return on equity (ROE)	**7.20**	10.51	8.75	8.38	8.22	
	Millions					
Operating Results:						
Number of passengers carried: Railway	**1,792**	1,788	1,789	1,772	1,811	
Passenger-kilometers: Railway	**52,828**	52,544	52,142	51,674	52,647	
	Millions of yen					Millions of U.S. dollars
Transportation Revenues:						
Passenger revenues	**¥ 756,054**	¥ 750,465	¥ 750,266	¥ 751,887	¥ 769,756	**$ 6,462**
Total (including luggage and ferry revenues)	**756,506**	750,949	750,813	752,390	770,259	**6,465**

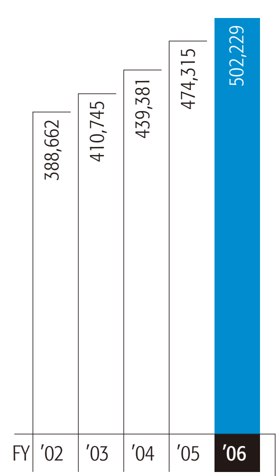
Notes: 1. Yen figures have been converted into U.S. dollars at the rate of ¥117=U.S.$1.00, the approximate exchange rate at March 31, 2006.
2. Long-term debt and payables includes the current portion of long-term debt and long-term payables.



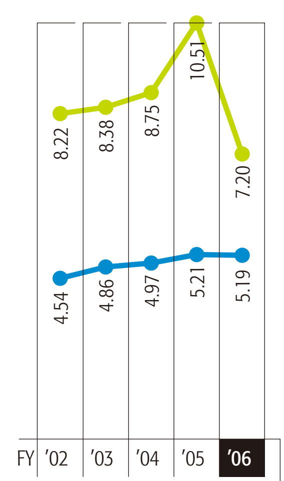
Operating Revenues
(Million ¥)
Operating Revenues
Transportation Revenues



Net Income
and Net Income per Share
Net Income (Million ¥)
Net Income per Share (¥)



Total Shareholders' Equity
(Million ¥)



Return on Total Assets
(Operating Income Basis)
and Return on Equity
(%)
Return on Total Assets
Return on Equity

A Message from the Management

Masao Yamazaki

The train derailment on the Fukuchiyama Line on April 25, 2005 caused the death of 106 passengers, with more than 500 injured. We maintain our commitment to helping those who have suffered as a result of the accident, and will continue to devote our full effort to respond sincerely to their needs and feelings.

West Japan Railway Company (JR-West) was launched as part of a program of railway revitalization following the Japanese National Railway's reform in April 1987. In the 18 years since then, we have overcome such calamities as the Great Hanshin Earthquake, and have continued to make steady efforts to enhance and strengthen our business infrastructure. JR-West was listed on the stock market in 1996, with all shares sold in 2004, thereby completing our transition to a fully private firm, one of our management goals since the Company's founding.

However, when the Company caused the Fukuchiyama Line accident it lost a considerable amount of the trust it had established among customers and society. We recognize that we must, as a Group, provide a beneficial service to society, and establish a solid foundation to ensure sustainable growth, built on providing a worry-free, high-quality, trusted transportation service.

We are now making steady progress with the Safety Enhancement Plan formulated on May 31, 2005. This plan embodies our efforts to establish a corporate culture that places a top priority on safety, and includes specific measures, covering both equipment and internal structures, to prevent accidents. The timetable revisions made in March 2006 were based on the Safety Enhancement Plan.

The accident has also prompted wide-reaching discussion on the nature of the Company, and the values that it should respect. Accordingly, in April 2006 we formulated a new Corporate Philosophy, and with the conviction that ensuring safety is our top priority, created a new Safety Charter with specific guidelines regarding safety. These two documents will help guide us as we continue to make a full-scale effort to improve safety and regain trust.

Regarding transportation and marketing for railway operations, faced with an extremely competitive business environment we are working to provide a worry-free, trusted transportation service, based on the timetable revision in March 2006. In terms of sales measures, we are further expanding our Internet train reservation system. We are pushing ahead with strategies to incorporate IT and the use of IC cards, and working to increase the number of holders of the J-WEST Card with which these services are used.

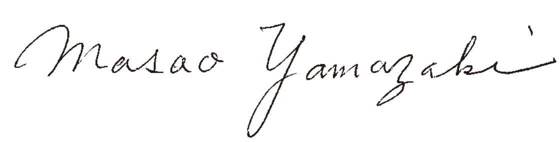
In Sales of Goods and Food Services and the Real Estate Business, we are making steady progress with the renovation of Osaka Station and development of the New North Building, and are moving ahead with our NexStation Plan and other initiatives. These measures will expand our business within stations and surrounding areas, and increase revenues for the entire Group.

Further, we recognize the importance of our Company's role in and duty toward society. Working together as a Group, and squarely facing the fundamental issue of making efforts to improve safety and quality, we will faithfully implement corporate social responsibility (CSR) and other measures to ensure compliance in all of our business activities, centered on our newly formed Compliance Committee and Risk Management Committee.

Although the JR-West Group announced a new medium-term business plan, entitled "Challenge 2008—Together with Our Customers," in March 2005, we are currently revising this plan in line with our newly created Corporate Philosophy and Safety Charter, and in accordance with the implementation of our Safety Enhancement Plan to regain customer trust by prioritizing safety.

Through these measures and initiatives, we are working to respond to the mandate given us by our shareholders. We sincerely appreciate your continued support of JR-West.

June 2006



Masao Yamazaki
President, Representative Director and Executive Officer

Measures to Improve Safety

Recognizing that safety is the foundation of its business, JR-West has made a determined effort to implement the Safety Enhancement Plan submitted to the Minister of Land, Infrastructure and Transport on May 31, 2005, as part of our effort to establish a corporate culture that places a top priority on safety.

Measures taken as of March 31, 2006, include the conduct of Emergency Safety Meetings, through which the JR-West management worked to foster safety awareness through the direct exchange of opinions and observations with employees in workplaces.

In terms of education, we have expanded and enhanced our safety training, and increased the number of simulators and other training equipment to create a structure for effective education.

Safety structures to prevent further accidents have also been enhanced through the formulation of a Safety Consultative Committee comprised of third-party experts, the appointment of Special Deputies to the President, a strengthening of the functions of the Transport Safety Department, and other measures.

For facilities, we have completed installation of automatic train stop (ATS) equipment that prevents trains from exceeding speed limits on curved portions of track, improved the safety facilities at crossings, undertaken construction to strengthen pillars supporting elevated tracks against earthquakes, and other measures.

Outline of the Safety Enhancement Plan
(40 items in total)

Measures to establish a corporate culture that places a top priority on safety (5 items in total)

- Convening of Emergency Safety Meetings
- Convening of the Safety Consultative Committee
- Revision of management philosophy (formulation of Corporate Philosophy and Safety Charter)
- Reporting and utilization of "Accident Origins"
- Structural reforms prioritizing safety

Structural and training-related measures (22 items in total)

- Education to prevent the recurrence of an accident
- Timetable revisions
- Creation of a procedure manual for major accidents
- Regular training for all train crews
- Appointment of Special Deputies to the President
- Establishment of a Safety Management Meeting
- New training program for drivers

Hardware and equipment-related measures (13 items in total)

- Installation of ATS-SW equipment on curved portions of tracks
- Installation of ATS-SW equipment at points and crossings and dead-end lines
- Promotion of installation of ATS-P equipment
- Earthquake-resistance construction
- Increase in number of back-up rolling stock
- Simulation equipment for train crews

Additional ¥60 billion capital expenditure to assure safety

Progress of Principal Measures

Measures to establish a corporate culture that places a top priority on safety

Convening of Safety Meetings
- Meetings focused on safety held between executives and front line employees
- Total number of meetings: approx. 2,500; total number of participants: approx. 40,200
- Meetings held after April 2006 to familiarize employees with the Corporate Philosophy and Safety Charter

Convening of the Safety Consultative Committee consisting of third-party experts
- Held six times until June 2006. Interim report will be released in July 2006

Formulation of new Corporate Philosophy and Safety Charter
- Revisions considered on the basis of internal discussions and third-party experts, formulated on April 1, 2006

Structural and training-related measures

Revision of reeducation program
- Content and period of education to prevent the recurrence of an accident standardized in response to causes and factors of the accident

Timetable revisions
- Revised to allow longer stops, more leeway (implemented on March 18, 2006)

All train crews receive training from chief trainers at the Staff Training Center every three to five years
- Regular training for all train crews implemented from April 2006

Hardware and equipment-related measures

Installation of ATS-SW equipment on curved portions of tracks
- Installation at all 1,234 planned location completed as of March 31, 2006

Promotion of ATS-P equipment
- Construction begun on the Yamatoji Line (Oji–Kamo), Hanwa Line (Hineno–Wakayama), and Nara Line (Kizu–Kyoto)

Earthquake-resistance construction
- Construction steadily being conducted on elevated tracks and other structures along the Shinkansen and Kosei Line

Increase in number of back-up rolling stock
- Planned for inclusion in the Urban Network area during fiscal 2007

Simulation equipment for train crews
- Introduction of simulator for train drivers planned for the first half of fiscal 2007, and simulator for conductors in second half

New Corporate Philosophy and Safety Charter

Our Safety Enhancement Plan dictates that the formulation of new management philosophy is a vital pillar in the establishment of a corporate culture that places a top priority on safety. Following wide-reaching discussions on the nature of the Company, its aims, and the values that it should respect, we established a new Corporate Philosophy on April 1, 2006. At the same time, to fulfill our foremost duty to ensure safety, and so that every employee is able to take specific actions, we substantially revised our Safety Charter to include specific action guidelines regarding safety. We will ensure that the Corporate Philosophy and Safety Charter are understood and observed by all employees, and devote our full efforts to improving safety, and regaining trust.

Corporate Philosophy

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

Safety Charter

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

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

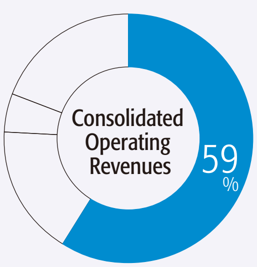
Business Overview
(Consolidated Basis)

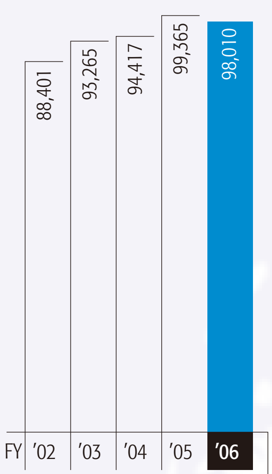
On a consolidated basis, operating revenues for the subject fiscal year rose 1.6% year on year, to ¥1,240.0 billion, with operating income up 1.6%, to ¥135.2 billion. Net income, however, declined 21.1%, to ¥46.5 billion.

Ensuring safety

Fiscal 2006 Results

Operating revenues in the Transportation Operations segment rose 0.6% year on year, to ¥850.8 billion, though operating income decreased 1.4%, to ¥98.0 billion.



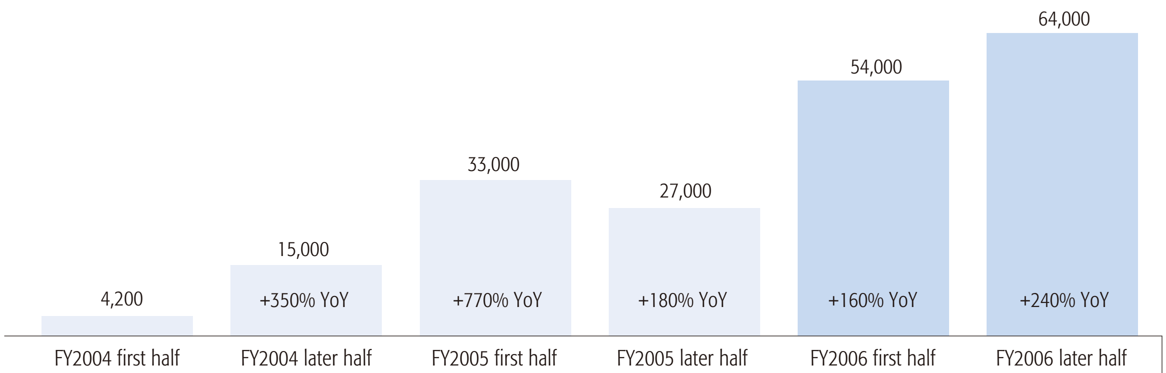


Consolidated Operating Income
(Million ¥)

OVERVIEW OF THE RAILWAY BUSINESS

JR-West's railway business area encompasses 18 prefectures in the western half of Honshu and the northern area of Kyushu, an area of approximately 104,000 square kilometers. The region is home to approximately 43 million people, equivalent to 30% of the population of Japan. The Company operates 50 lines with a total of 1,208 stations. Operating route length totals 5,024.1 kilometers, a little less than 20% of all passenger railway kilometerage in Japan. By line, the Sanyo Shinkansen, a high-speed intercity transport line, stretches 644.0 kilometers, the Urban Network covering the Kyoto-Osaka-Kobe metropolitan area covers 621.7 kilometers (954.4 kilometers including the three branch offices in Kyoto, Osaka, and Kobe), and other conventional lines (excluding the three branch offices in Kyoto, Osaka, and Kobe) extend a total of 3,425.7 kilometers.

THE JR-WEST NETWORK



Number of Passengers on Package Tours from Tokyo to the Sanyo Area
(Unit: persons)

SANYO SHINKANSEN SERVICES

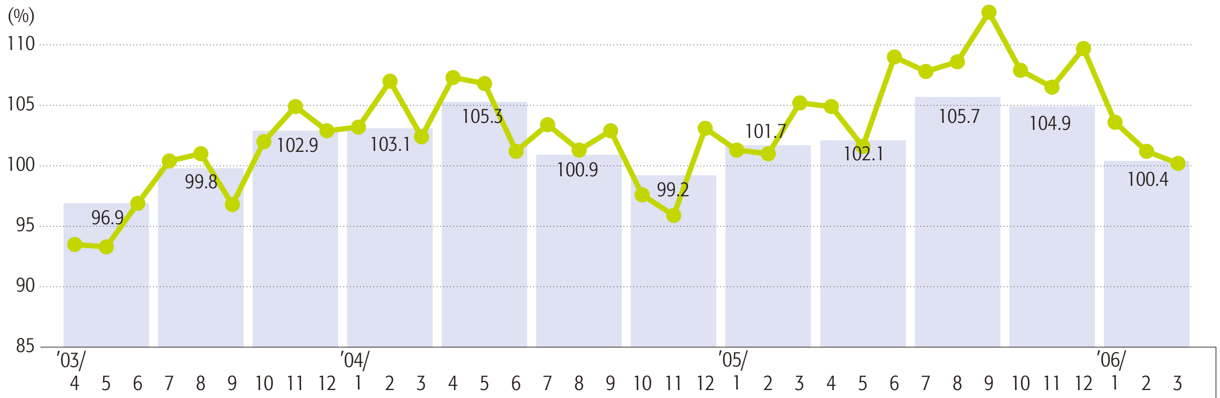
The Sanyo Shinkansen is a high-speed transport service operating over a 644.0-kilometer stretch between Shin-Osaka and Hakata.

In fiscal 2006, Sanyo Shinkansen ridership increased by 3.3% year on year, to 60 million. Transportation volume rose 3.7%, to 14,848 million passenger-kilometers, while transportation revenues increased 3.3% (up ¥10.4 billion), to ¥323.8 billion. Both transport volume and revenue rose for the third consecutive fiscal year. As a proportion of all JR-West transport revenues, income from the Sanyo Shinkansen reached approximately 43%.

Four types of trains are operated on the Sanyo Shinkansen: the express trains *Nozomi*, *Hikari Rail Star*, and *Hikari*, and the local train *Kodama*. Of these, the fastest *Nozomi* operates at a maximum speed of 300 kilometers per hour, linking Shin-Osaka and Hakata in two hours and 23 minutes. *Nozomi* trains run direct to Tokyo, so are not significantly different from airplanes in terms of total travel time over the same distance. The *Hikari Rail Star* runs mainly between Shin-Osaka and Hakata, and has proven extremely popular with passengers since its debut in March 2000 for its comfortable transport at a speed second only to *Nozomi* trains, and at no extra charge.

Review of Fiscal 2006

The timetable was revised in March 2005, as passenger use increased following the revision in October 2003. We increased the number of *Nozomi* trains providing direct service from Okayama and Hiroshima to Tokyo, and further enhanced convenience by improving the schedule of departure times between trains, expanding the number of stops, and other measures. We further revised the timetable in March 2006, as the opening of the



Transportation Revenue and a Cross-Section of Transportation Volume
Number of passengers (Shin-Osaka~Nishi-Akashi, year on year)
Transportation revenues (year on year; %)

Kobe Airport in February 2006 and the New Kitakyushu Airport in March 2006 significantly increased the number of flights in our competitive area. We boosted the number of *Nozomi* trains providing direct service from Hakata and Hiroshima to Tokyo, added express service *Hikari Rail Star* trains, and took other steps to maintain and improve the competitiveness of the Shinkansen service.

In terms of sales and marketing, we conducted sales promotions for such products as the *Nozomi* early reservation round-trip tickets and other discount tickets. We also undertook activities to promote the DISCOVER WEST and other campaigns developed in cooperation with local municipalities, other JR companies and travel agents, and made efforts to provide basic information on revision of timetables, tourism opportunities and other announcements. In addition, we issued the J-WEST Card credit card in February 2006, and began offering an Internet reservation service to cardholders. We took steps to increase use of this new reservation system through such measures as providing cardholders with discount offers.

Initiatives in Fiscal 2007

We will work to enhance promotions and other campaigns to maximize the effect from the timetable revision conducted in March 2006.

From July 2006, we will expand our Express Reservation service on all Tokaido and Sanyo Shinkansen lines, promote the use of the J-WEST Card and Express Reservation service, provide reasonably priced products and expand sales channels, and make other efforts to increase the number of regular Shinkansen passengers.

We are also making preparations for the launch of the next-generation Shinkansen model N700 in the summer of 2007.

URBAN NETWORK SERVICES

(Conventional lines in the Kyoto-Osaka-Kobe Metropolitan Area)

The Urban Network provides passenger service for the densely populated major cities of Kyoto, Osaka, and Kobe, and their surrounding areas. It has an operating route length of 621.7 kilometers (954.4 kilometers including the three branch offices in Kyoto, Osaka, and Kobe), forming a comprehensive network stretching across the entire Kyoto-Osaka-Kobe region.

In fiscal 2006, Urban Network ridership including the three branch offices of Kyoto, Osaka, and Kobe, increased by 0.2% year on year, to 1,430 million. Transportation volume was down 0.6%, to 28,272 million passenger-kilometers, while transportation revenues fell 1.0% (down ¥2.9 billion), to ¥297.5 billion. As a proportion of all JR-West transport revenues, income from the Kyoto-Osaka-Kobe network was approximately 39%.

The timetable for the Urban Network was revised in March 2006 in line with the Safety Enhancement Plan. This was done with the aim of consistently providing stable transportation services premised on safety, incorporating revised stopping times that take into account the actual status of use by passengers, and such elements as the setting of running times with sufficient leeway.

The number of users of ICOCA, an IC card introduced in November 2003, continues to rise, with more than 2.4 million cards issued in the two and a half years since its introduction. In November 2005, we launched the ICOCA electronic money service, which allows passengers to make purchases at convenience stores and other shops inside stations, and further improved convenience in January 2006 by introducing a system providing interoperability between our ICOCA IC card and the PiTaPa IC card used by private railways in Kansai, and others.

INTERCITY AND REGIONAL SERVICES

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

In fiscal 2006, intercity and regional service ridership (excluding the three branch offices of Kyoto, Osaka, and Kobe) fell by 0.3% year on year, to 375 million. Transportation volume was down 0.9%, to 9,706 million passenger-kilometers, while transportation revenues fell 1.4% (down ¥1.8 billion), to ¥134.7 billion. As a proportion of all JR-West transport revenues, income from the other conventional lines was approximately 18%.

Business conditions for the other conventional lines remain harsh due to the decline in population along the railway lines and other factors. However, as these lines serve a role as feeders for Shinkansen service, and function as part of the overall railway network, we will continue to implement a variety of management efforts, emphasizing safety.

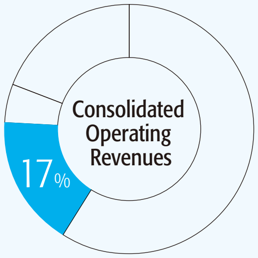
Service between Toyama and Iwasehama stations on the Toyamako Line was discontinued from March 1, 2006, due to the decision by the city of Toyama to adopt a light rail system.

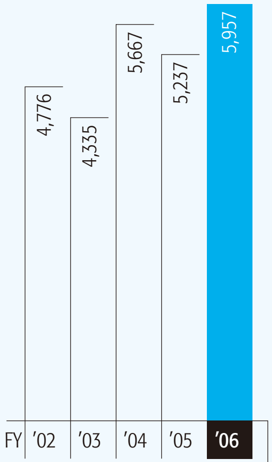
BUS AND FERRY SERVICES

JR-West's Transportation Operations segment includes bus and ferry services. In bus services, the Company worked to provide services that respond to the varied needs of customers, including the comfort-oriented *Super Dream* bus, and the low-cost *Super-Discount Youth* bus, both operating along the route between Osaka and Tokyo.

Fiscal 2006 Results

Operating revenues in the Sales of Goods and Food Services segment rose 5.0% year on year, to ¥244.4 billion, with operating income up 13.7%, to ¥5.9 billion.





Consolidated Operating Income
(Million ¥)

Overview of the Sales of Goods and Food Services Segment

JR-West's retail services mainly target railway passengers, consisting of convenience stores and other food and beverage establishments located in and around station buildings, as well as the JR Kyoto Isetan department store.

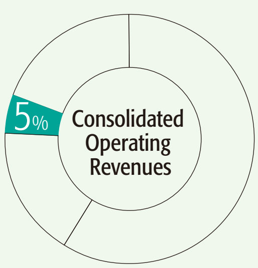
Initiatives in the Sales of Goods and Food Services Segment

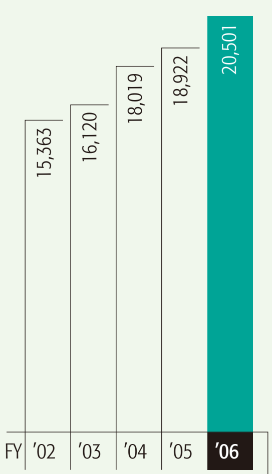
JR-West continued to move forward with the implementation of the NexStation Plan, formulated in fiscal 2004, to improve the quality of its stations. Other initiatives to expand and improve retail businesses within stations included the opening of a shopping area near the first-floor entrance to the Shinkansen tracks in Hiroshima Station, and the opening of the Umesan Koji commercial facility in the space under the elevated tracks in Osaka Station, following the completion of station renovations.

Real Estate Business

Fiscal 2006 Results

Operating revenues in the Real Estate Business segment rose 6.8% year on year, to ¥75.7 billion, with operating income up 8.3%, to ¥20.5 billion.





Consolidated Operating Income
(Million ¥)

Overview of the Real Estate Business Segment

In this business, JR-West seeks to effectively utilize its real estate holdings in and around stations, operates shopping centers, leases sites, and develops station buildings and the spaces under elevated tracks. In fiscal 2003, JR-West began developing and selling condominiums on former sites of Company housing developments and leisure facilities in the Kyoto-Osaka-Kobe area.

Initiatives in the Real Estate Business Segment

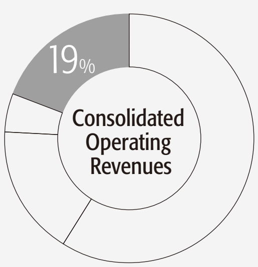
JR-West opened Prism Fukui, a shopping center beneath recently elevated tracks at Fukui Station. Other initiatives to develop stations and surrounding areas included the renewal of the Est Ichiban-gai shopping centers beneath elevated tracks in Umeda, Osaka, reopened as EST locations.

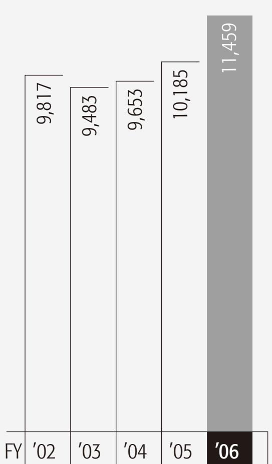
We also developed condominium apartments on land formerly used for housing for Company employees, and made other efforts to effectively utilize assets.

The renovation of Osaka Station and the development of the New North Building is proceeding smoothly according to plan, with renewal work continuing, and removal of the existing North Building now underway.

Fiscal 2006 Results

Operating revenues in the Other Businesses segment rose 8.0% year on year, to ¥280.2 billion, with operating income up 12.5%, to ¥11.4 billion.





Consolidated Operating Income
(Million ¥)

Overview of the Other Businesses Segment

JR-West's other businesses consist of the travel agency business operated by Nippon Travel Agency, which became a consolidated subsidiary of JR-West in fiscal 2004, the hotel business centered on the Hotel Granvia Kyoto, advertising agency business, maintenance and engineering services, and other services that support the smooth operation of the core railway business.

Initiatives in the Other Businesses Segment

In travel agency operations, JR-West's subsidiary Nippon Travel Agency Co., Ltd., marked the 100th anniversary of its establishment with a new corporate logo, and other revisions to its corporate identity. It also developed several new products and services, including the introduction of Red Balloon Centennial, a high-value-added travel product, and other tour packages using chartered transportation.

In hotel operations, JR-West renovated guest rooms, restaurants, and banquet halls, while banquet and culinary departments promoted sales by holding various events, and other initiatives.

In addition to these measures, JR-West undertook new initiatives to provide services that respond to the varied needs of customers, including launching the ICOCA electronic money service, and expanding the credit card business with the issue of the J-WEST Card.

Organizational Structure

As of June 23, 2006

- Board of Corporate Auditors
- Corporate Auditors
- Board of Directors
  - President
    - Supporting Headquarters for the Victims of the Derailment Accident on the Fukuchiyama Line
      - Consultation Office of the Derailment Accident on the Fukuchiyama Line
    - Deliberation Department of the Derailment Accident on the Fukuchiyama Line
    - Corporate Planning Headquarters
      - CSR Office
      - Group Management Planning Office
      - IT Development Office
        - System Center
    - General Affairs Department
      - Human Rights Office
      - Risk Management Office
    - Corporate Communications Department
    - Inquiry & Auditing Department
    - Personnel Department
      - Staff Training Center
      - Osaka Railway Hospital
    - Finance Department
    - Tokyo Headquarters
    - Railway Operations Headquarters
      - Transport Safety Department
      - Marketing Division
        - CRM Development Office
          - JR-West Customer Center
        - Tokyo Marketing Department
        - Kyushu Marketing Department
      - Technical Research and Development Department
        - GCT Test Operations Center
      - Station Operations Department
      - Transport Department
      - Rolling Stock Department
      - Track & Structures Department
      - Electrical Engineering Department
      - Shin-Osaka General Control Center
      - Tokyo General Control Center
    - Safety Research Institute
    - Construction Department
    - Corporate Resource Development Headquarters
      - New Business Creation Department
    - Osaka Construction Office
    - Kanazawa Branch
    - Kyoto Branch
    - Osaka Branch
    - Wakayama Branch
    - Kobe Branch
    - Fukuchiyama Branch
    - Okayama Branch
    - Yonago Branch
    - Hiroshima Branch
      - Hiroshima Railway Hospital
      - Ferry Service Supervisor
    - Fukuoka Branch

Consolidated Six-Year Summary

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

	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.

Management's Discussion and Analysis of Operations (Consolidated Basis)

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.

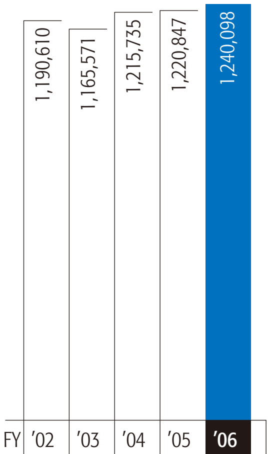
In other expenses, interest expense is a major consideration. The JR-West Group's total interest expense for the subject fiscal year declined ¥2.8 billion to ¥39.7 billion, due to reduction of long-term debt and payables and lower interest rates.

Liquidity and Capital Sources

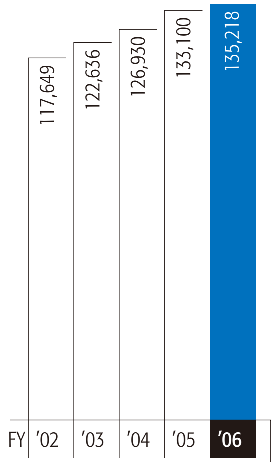
■ *Cash Flows*

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.

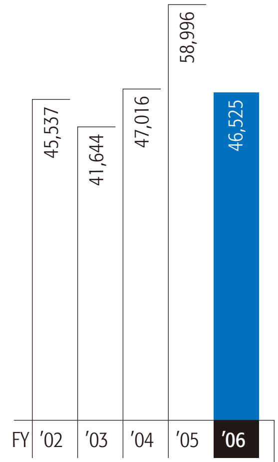
Net cash used in investing activities totaled ¥101.7 billion (up ¥16.8 billion). This was due mainly to purchases of property,



Operating Revenues
(Million ¥)



Operating Income
(Million ¥)



Net Income
(Million ¥)

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.

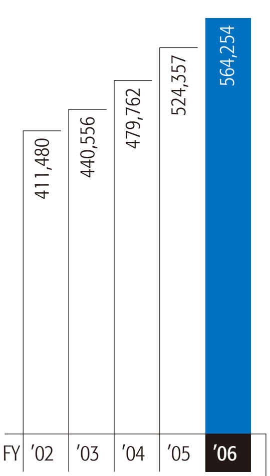
Basic Management Policies

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."

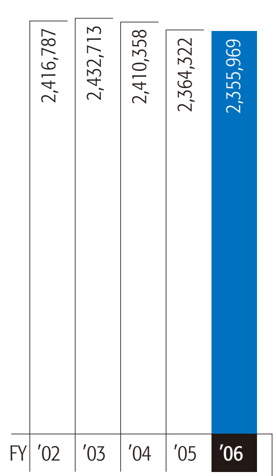
The Group will also develop its Sales of Goods and Food Services and Real Estate Business with a focus on providing services mainly to railway passengers, and on efficient utilization of assets in the vicinity of railway stations.

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.

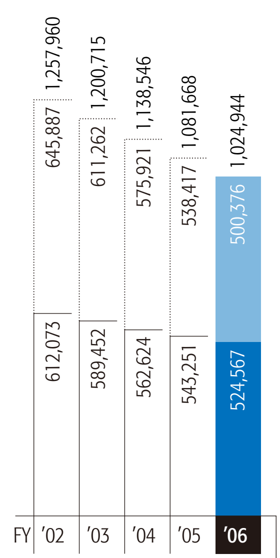
Looking forward, amid a difficult operating environment, JR-West will continue to strive to improve its corporate value by accurately identifying market trends, maximizing its management assets, and making a determined effort to implement various measures in a strategic and timely manner so as to provide 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.



Total Shareholders' Equity
(Million ¥)



Total Assets
(Million ¥)



Long-Term Debt and Payables
(Million ¥)
Long-Term Payables
Long-Term Debt

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

	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

	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

	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

	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.

Notes to Consolidated Financial Statements

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

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:

	Millions of yen					
	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

	Millions of yen			Millions of U.S. dollars		
	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:

	Millions of yen			Millions of U.S. dollars
	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:

	Millions of yen		Millions of U.S. dollars	
	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 ("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	¥ 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					
	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:

	Millions of yen					
	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

	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	¥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**

Report of Independent Auditors

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.

Ernst & Young ShinNihon

Osaka, Japan
June 23, 2006

Ernst & Young ShinNihon

Non-Consolidated Balance Sheets

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

	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

	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

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.

Notes to Non-Consolidated Financial Statements

West Japan Railway Company
March 31, 2006

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**

Report of Independent Auditors

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.

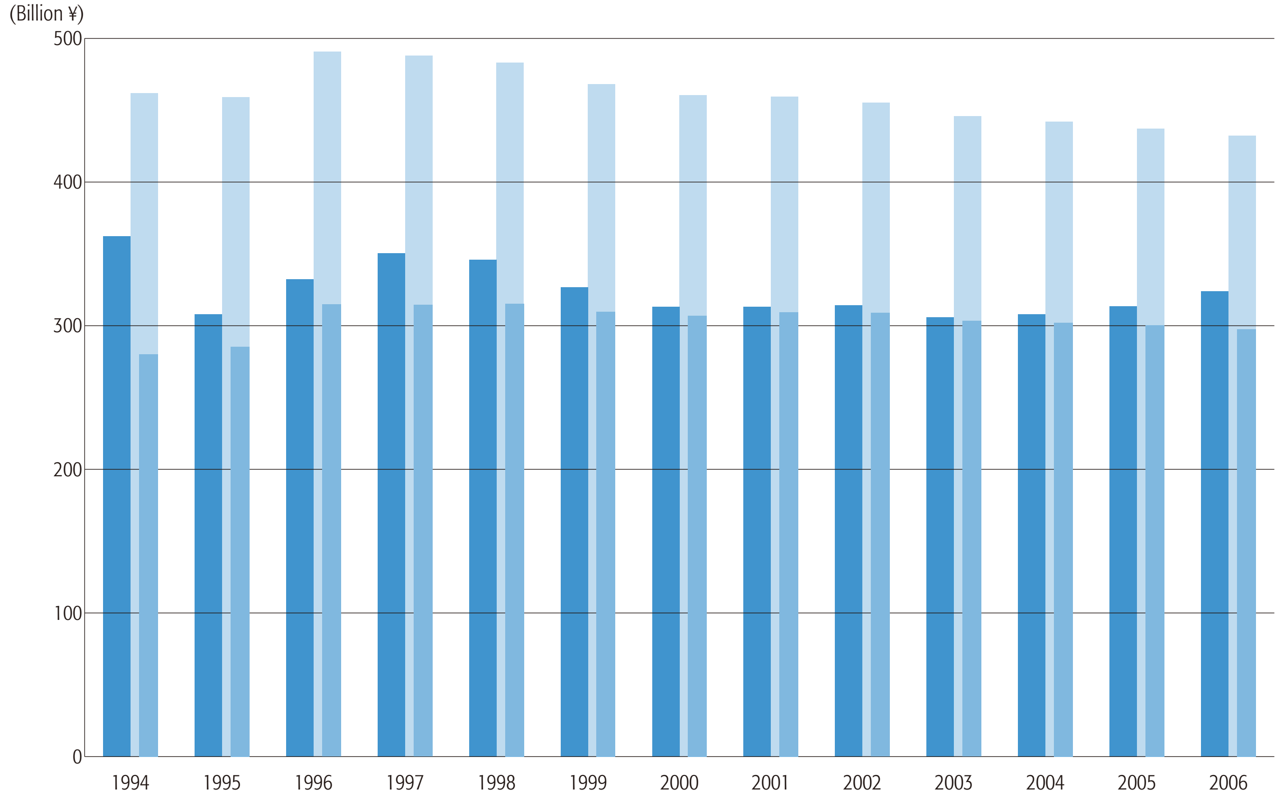
The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on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

Ernst & Young ShinNihon

Osaka, Japan
June 23, 2006

Ernst & Young ShinNihon

TRANSPORTATION REVENUES FOR JR-WEST (NON-CONSOLIDATED BASIS)



Billions of yen

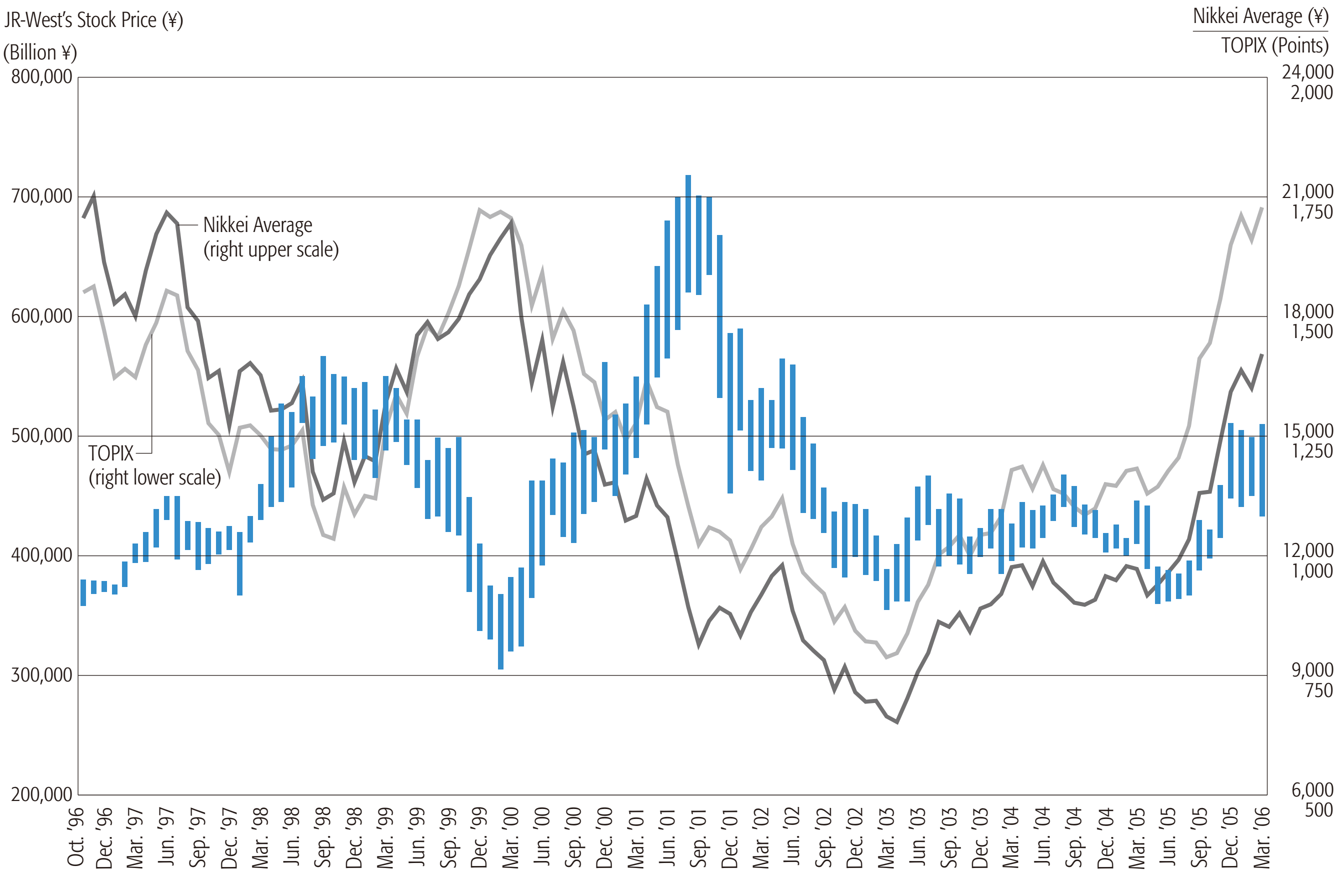
Years Ended March 31	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Sanyo Shinkansen	362.3	307.8	332.2	350.3	346.0	326.7	313.0	313.0	314.3	306.0	308.1	313.4	**323.8**
Conventional Lines	461.8	458.9	491.0	488.1	483.2	468.2	460.4	459.5	455.3	445.8	442.1	437.0	**432.2**
Kyoto-Osaka-Kobe Area (3 branches)	280.1	285.3	314.8	314.4	315.3	309.8	306.9	309.3	308.9	303.3	302.0	300.4	**297.5**
Luggage	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.0**
Total	824.4	767.0	823.5	838.7	829.5	795.1	773.6	772.7	769.9	752.0	750.3	750.5	**756.1**

KEY RATIOS FOR JR-WEST PERFORMANCE

	Consolidated					Non-Consolidated				
Years Ended March 31	2002	2003	2004	2005	**2006**	2002	2003	2004	2005	**2006**
Return on Total Assets (ROA: operating income basis) (%)	4.71	5.06	5.24	5.58	**5.73**	4.54	4.86	4.97	5.21	**5.19**
Return on Equity (%)	11.04	9.78	10.22	11.75	**8.55**	8.22	8.38	8.75	10.51	**7.20**
Return on Operating Revenues (%)	3.82	3.57	3.87	4.83	**3.75**	3.74	3.94	4.39	5.67	**4.13**
Asset Turnover (times)	0.48	0.48	0.50	0.51	**0.53**	0.40	0.40	0.40	0.40	**0.41**
Equity Turnover (times)	2.89	2.65	2.53	2.33	**2.20**	2.24	2.07	1.93	1.78	**1.70**
Equity Ratio (%)	17.03	18.11	19.90	22.18	**23.95**	18.20	19.40	20.66	22.61	**23.89**
Interest Coverage (times)	2.17	2.50	2.78	3.13	**3.41**	1.96	2.23	2.44	2.73	**2.89**
Liquidity (months)	0.95	0.93	0.70	0.62	**0.54**	0.69	0.54	0.61	0.52	**0.63**

Investor Information

STOCK PRICE AND TRADING VOLUME



		Oct. '96	Mar. '97	Sep. '97	Mar. '98	Sep. '98	Mar. '99	Sep. '99	Mar. '00	Sep. '00	Mar. '01
JR-West	High (¥)	380,000	410,000	428,000	460,000	567,000	550,000	490,000	382,000	503,000	550,000
	Low (¥)	358,000	394,000	388,000	430,000	492,000	488,000	420,000	320,000	411,000	482,000
	Trading Volume Shares	272,570	108,717	34,804	36,423	36,254	31,029	31,123	25,080	35,025	48,053
Nikkei Average (¥)		20,466.86	18,003.40	17,887.71	16,527.17	13,406.39	15,836.59	17,605.46	20,337.32	15,747.26	12,999.70
TOPIX (Points)		1,550.55	1,373.26	1,388.32	1,251.70	1,043.57	1,267.22	1,506.83	1,705.94	1,470.78	1,277.27

		Sep. '01	Mar. '02	Sep. '02	Mar. '03	Sep. '03	Mar. '04	Sep. '04	Mar. '05	Sep. '05	Mar. '06
JR-West	High (¥)	701,000	540,000	457,000	389,000	452,000	427,000	458,000	446,000	430,000	510,000
	Low (¥)	618,000	463,000	419,000	355,000	400,000	396,000	424,000	410,000	388,000	433,000
	Trading Volume Shares	97,307	75,319	58,103	50,714	61,617	340,521	99,508	134,203	135,969	182,870
Nikkei Average (¥)		9,774.68	11,024.94	9,383.29	7,972.71	10,219.05	11,715.39	10,823.57	11,668.95	13,574.30	17,059.66
TOPIX (Points)		1,023.42	1,060.19	921.05	788.00	1,018.80	1,179.23	1,102.11	1,182.18	1,412.28	1,728.16

Notes: 1. Based on prices on the First Section of the Tokyo Stock Exchange.
2. The closing prices for the Nikkei Index and TOPIX are recorded at the end of the month.

Number of Shareholders: 172,564 (As of March 31, 2006)

Major Shareholders
(As of March 31, 2006)

	Number of Shares Held (Shares)	Equity Ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Unit)	117,809	5.89
The Master Trust Bank of Japan, Ltd. (Trust Unit)	79,474	3.97
Mizuho Corporate Bank, Ltd.	69,000	3.45
Sumitomo Mitsui Banking Corporation	64,000	3.20
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	63,000	3.15
JR-West Employee Stock-Sharing Plan	41,946	2.10
State Street Bank and Trust Company 505103	38,193	1.91
The Sumitomo Trust & Banking Co., Ltd.	32,000	1.60
Nippon Life Insurance Company	30,000	1.50
The Dai-Ichi Mutual Life Insurance Company	30,000	1.50
Total	565,422	28.27

Consolidated Subsidiaries

As of March 31, 2006

Segment	Name	Paid-in Capital (Millions of yen)	Business	Equity Ownership (%)
Transportation	Chugoku JR Bus Company	2,840	Bus Services	100.0
	West Japan JR Bus Company	2,110	Bus Services	100.0
	Sagano Scenic Railway	200	Railway Services	100.0
Sales of Goods and Food Services	West Japan Railway Isetan Limited	6,000	Department Store	66.7
	West Japan Railway Daily Service Net Company	2,300	Retail Sales	91.5
	West Japan Railway Food Service Net Company	899	Food Services	100.0
	Japan Railway Service Net Hiroshima Company	300	Retail Sales	100.0
	Japan Railway Service Net Okayama Company	230	Retail Sales	100.0
	Japan Railway West Trading Company	200	Wholesale	100.0
	Japan Railway Service Net Kanazawa Company	200	Retail Sales	100.0
	Japan Railway Service Net Yonago Company	200	Retail Sales	100.0
	Japan Railway Service Net Fukuoka Company	200	Retail Sales	100.0
	West Japan Railway Fashion Goods Co., Ltd.	100	Retail Sales	100.0
Real Estate Business	Kyoto Station Building Development Co., Ltd.	6,000	Real Estate Leasing	61.9
	Osaka Terminal Building Company	2,000	Real Estate Leasing	57.4
	Tennoji Terminal Building Co., Ltd.	1,800	Real Estate Leasing	61.7
	Kyoto Station Center Co., Ltd.	1,000	Real Estate Leasing	59.0
	JR-West Japan Real Estate & Development Company	620	Real Estate Brokerage	100.0
	Toyama Terminal Building Company	550	Real Estate Leasing	63.6
	West JR Create Company	490	Real Estate Leasing	100.0
	Ashiya Station Building Co., Ltd.	400	Real Estate Leasing	91.3
	Kanazawa Terminal Development Co., Ltd.	300	Real Estate Leasing	80.0
	Okayama Station Center Co., Ltd.	300	Real Estate Leasing	51.0
	Akashi Station Center Co., Ltd.	146	Real Estate Leasing	92.3
	Sanyo Station Development Co., Ltd.	120	Real Estate Leasing	100.0
	San-in Station Development Co., Ltd.	100	Real Estate Leasing	93.0
	Kure Station Development Co., Ltd.	100	Real Estate Leasing	90.0
	Tennoji Station Building Co., Ltd.	100	Real Estate Leasing	78.4
	Hiroshima Station Building Co., Ltd.	100	Real Estate Leasing	100.0
	Kobe Station Development Co., Ltd.	98	Real Estate Leasing	100.0
	Chugoku Station Development Co., Ltd.	75	Real Estate Leasing	100.0
	Wakayama Station Building Co., Ltd.	75	Real Estate Leasing	76.5
	Shin-Osaka Station Store Company	60	Real Estate Leasing	100.0
	Osaka Station Development Co., Ltd.	50	Real Estate Leasing	100.0
	Kyoto Eki-Kanko Department Store Company	40	Real Estate Leasing	96.3
	JR-West Fukuoka Development Co., Ltd.	30	Real Estate Leasing	100.0

Segment	Name	Paid-in Capital (Millions of yen)	Business	Equity Ownership (%)
Other Business	West Japan Railway Hotel Development Limited	18,000	Hotels	100.0
	Nippon Travel Agency Co., Ltd.	4,000	Travel Services	79.8
	Hotel Granvia Hiroshima Co., Ltd.	2,800	Hotel	93.1
	Hotel Granvia Osaka Co., Ltd.	2,200	Hotel	52.9
	Hotel Granvia Okayama Co., Ltd.	2,054	Hotel	93.9
	Wakayama Terminal Building Co., Ltd.	1,000	Hotel	61.0
	Sannomiya Terminal Building Co., Ltd.	500	Hotel	67.0
	West-Japan Railways Financial Services	360	Lease and Finance	100.0
	Kurashiki Station Development Co., Ltd.	320	Hotel	99.1
	JR West Japan LINEN Co., Ltd.	290	Linen, Supply Services	97.4
	JR West Japan Communications Company	200	Advertising Services	100.0
	WEST JAPAN RAILWAY TECHNOS CORPORATION	161	Maintenance for Railcar Facilities	62.7
	JR West Japan General Building Service Co., Ltd.	130	Building Management	95.0
	West Japan Railway Maintec Co., LTD	100	Railcar-Related Cleaning	100.0
	Railway Track and Structures Technology Co., Ltd.	100	Constructing	100.0
	West Japan Electric Technologys Co., Ltd.	90	Electric Works	100.0
	West Japan Electric System Co., Ltd.	81	Railway-Related Electric Facilities	51.5
	JR West Japan MARUNIX Co., Ltd.	80	Baggage Service	51.0
	JR-West Japan Consultants Company	50	Consulting	100.0
	JR West Japan Transportation Service Co., Ltd.	50	Station Operations	94.6
	West Japan Railway Golf Co., Ltd.	50	Golf Course Management	88.1
	JR West Financial Management Co., Ltd.	50	Accounting Shared Service	100.0
	West Japan Railway Information System Company	48	Information Services	100.0
	West Japan Railway Hiroshima MAINTEC Co., LTD	35	Railcar-Related Cleaning	100.0
	West Japan Railway Kanazawa MAINTEC Co., LTD	30	Railcar-Related Cleaning	100.0
	West Japan Railway FUKUOKA MAINTEC Co., LTD	30	Railcar-Related Cleaning	100.0
	Eki Rent-A-Car Kansai Company	30	Rent-a-Car Services	80.0
	West Japan Railway Okayama MAINTEC Co., LTD	25	Railcar-Related Cleaning	100.0
	West Japan Railway Fukuchiyama MAINTEC Co., LTD	20	Railcar-Related Cleaning	100.0
	West Japan Railway Yonago MAINTEC Co., LTD	20	Railcar-Related Cleaning	100.0
	Eki Rent-A-Car Chugoku Company	20	Rent-a-Car Services	75.0
	West Japan Railway WelNet Co., Ltd.	10	Welfare Facilities Management	100.0
	Hakushin Sharyo Industries Co., Ltd.	10	Maintenance for Railcar Facilities	87.0

Board of Directors and Corporate Auditors

As of June 23, 2006

Chairman of the Board of Directors .... **Noritaka Kurauchi***
Director .... **Yoshio Tateishi ***
Director .... **Akio Nomura ***
Director .... **Satoru Sone ***
Director .... **Tadashi Ishikawa ***
Director, President and Executive Officer .... **Masao Yamazaki****
Director, Vice President and Executive Officer .... **Kazuaki Maruo****
Director, Vice President and Executive Officer .... **Toshifumi Shiba****
Director and Senior Managing Executive Officer .... **Ryuichiro Tsuchiya**
Director and Senior Executive Officer .... **Takashi Kondo**
Director and Senior Executive Officer .... **Seiji Manabe**
Director and Senior Executive Officer .... **Naoki Nishikawa**
Director and Executive Officer .... **Takeshi Kakiuchi**

* External Director; ** Representative Director

Corporate Auditor .... **Tsutomu Iwasaki* ****
Corporate Auditor .... **Kazuo Yoshida ***
Corporate Auditor .... **Ikuo Uno ***
Corporate Auditor .... **Noboru Koide****

* External Auditor; ** Full-time Auditor

Executive Officers

As of June 23, 2006

President, Representative Director and Executive Officer .... **Masao Yamazaki**

Vice President, Representative Director and Executive Officer .... **Kazuaki Maruo**
- *Senior General Manager of Railway Operations Headquarters*

Vice President, Representative Director and Executive Officer .... **Toshifumi Shiba**

Director and Senior Managing Executive Officer .... **Ryuichiro Tsuchiya**
- *Senior General Manager of Supporting Headquarters for the Victims of the Derailment Accident on the Fukuchiyama Line*
- *General Manager of Deliberation Department of the Derailment Accident on the Fukuchiyama Line*

Director and Senior Executive Officer .... **Takashi Kondo**
- *Senior General Manager of Corporate Resource Development Headquarters*

Director and Senior Executive Officer .... **Seiji Manabe**
- *Senior General Manager of Corporate Planning Headquarters*

Director and Senior Executive Officer .... **Naoki Nishikawa**
- *Deputy Senior General Manager of Railway Operations Headquarters*
- *General Manager of Transport Safety Department, Railway Operations Headquarters*

Director and Executive Officer .... **Takeshi Kakiuchi**

Senior Executive Officer .... **Kenji Shiratori**
- *General Manager of Safety Research Institute*

Senior Executive Officer .... **Hitoshi Nakamura**
- *Deputy Senior General Manager of Supporting Headquarters for the Victims of the Derailment Accident on the Fukuchiyama Line*

Senior Executive Officer .... **Koichi Inoue**
- *Deputy Senior General Manager of Railway Operations Headquarters*
- *Senior General Manager of Marketing Division, Railway Operations Headquarters*

Senior Executive Officer .... **Noriaki Azuma**
- *Senior General Manager of Tokyo Headquarters*

Executive Officer .... **Teruaki Akahoshi**
- *General Manager of Construction Department*

Executive Officer .... **Akiyoshi Yamamoto**
- *General Manager of Technical Research and Development Department, Railway Operations Headquarters*

Executive Officer .... **Michio Utsunomiya**
- *General Manager of Corporate Communications Department*

Executive Officer .... **Takao Fukuyama**
- *General Manager of Kyoto Branch*

Executive Officer .... **Osamu Yamaoka**
- *General Manager of Wakayama Branch*

Executive Officer .... **Kenji Nanakawa**
- *General Manager of Osaka Branch*

Executive Officer .... **Yoshifumi Matsuda**
- *General Manager of Hiroshima Branch*

Executive Officer .... **Tatsuya Mano**
- *Deputy Senior General Manager of Railway Operations Headquarters*
- *General Manager of Shinkansen Operations, Railway Operations Headquarters*

Executive Officer .... **Hideyo Sakata**
- *Deputy Senior General Manager of Corporate Resource Development Headquarters*

Executive Officer .... **Konosuke Ohashi**
- *General Manager of Finance Department*

Executive Officer .... **Satoshi Maruyama**
- *General Manager of Okayama Branch*

Executive Officer .... **Masaru Kawakami**
- *General Manager of Yonago Branch*

Executive Officer .... **Hitoshi Miura**
- *Deputy Senior General Manager of Railway Operations Headquarters*
- *General Manager of Transportation Department, Railway Operations Headquarters*

Executive Officer .... **Tatsuo Kijima**
- *General Manager of Personnel Department*

Executive Officer .... **Masato Naito**
- *General Manager of Fukuoka Branch*

Executive Officer .... **Fumio Hosono**
- *General Manager of Kanazawa Branch*

Executive Officer .... **Shigeki Kitazono**
- *General Manager of Kobe Branch*

Executive Officer .... **Makoto Shibata**
- *General Manager of General Affairs Department*

Executive Officer .... **Kunikazu Onishi**
- *General Manager of Fukuchiyama Branch*

Corporate Data

As of March 31, 2006

COMPANY NAME

West Japan Railway Company

HEAD OFFICE

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

PAID-IN CAPITAL

¥100 billion

NUMBER OF EMPLOYEES

29,493

STOCK LISTINGS

Tokyo, Osaka, Nagoya, and Fukuoka stock exchanges

TRANSFER AGENT

The Sumitomo Trust & Banking Co., Ltd.

MAIN FEATURES OF BUSINESS

■ RAILWAY

(Non-Consolidated Basis)

Route length and track gauge

50 lines; 5,024.1 km
- Shinkansen (1 line): 644.0 km; 1,435 mm
- Conventional lines (49 lines):
  - 4,371.6 km; 1,067 mm
  - 8.5 km; 1,435 mm

Double- and multi-tracked section length

2,209.8 km (44.0% of total route length)

Electrified-section length

3,388.2 km (67.4% of total route length)

Trains per day

8,181
- Shinkansen: 289
- Conventional lines: 7,892

Train-kilometers per day

539,000 km

Number of stations

1,208

Rolling stock

6,620 cars
- Electric railcars: 5,541
  - Shinkansen: 821
  - Conventional lines: 4,720
- Diesel railcars: 481
- Passenger cars: 235
- Freight cars: 258
- Electric locomotives: 42
- Diesel locomotives: 58
- Steam locomotives: 5

■ FERRY SERVICE

(Non-Consolidated Basis)

Route length

1.8 km

Number of ferryboats

3

■ OTHER BUSINESSES

Bus Services

Sales of Goods and Food Services

Retail and Food Service Operations
Department Store Operations
Wholesale Operations

Real Estate Business

Shopping Center Management
Real Estate Brokerage and Leasing

Other Businesses

Travel Agency Business
Hotels
Advertising Services
Electrical Engineering
Maintenance for Railcar Facilities
Construction Consulting
Railcar-Related Cleaning
Rent-a-Car Business
Management of Welfare Facilities
Merchandise Leasing
Construction Services

For further information, please contact the Investor Relations section of the Corporate Planning Headquarters at the West Japan Railway Company Head Office.

4-24, Shibata 2-chome,
Kita-ku, Osaka 530-8341, Japan
Tel: 81-6-6375-8981
Fax: 81-6-6375-8976
E-mail: ir@westjr.co.jp
URL: http://www.westjr.co.jp

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JR-WEST

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