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

Results of Operations

Operating revenues for fiscal 2007 (ended March 31, 2007) expanded 1.8% from the previous fiscal year to ¥1,262.9 billion, the fourth consecutive increase. This was due mainly to a ¥14.1 billion rise in the Transportation Operations segment stemming from improved convenience from timetable revisions and other factors that increased use of Shinkansen service. Increases in the Sales of Goods and Food Services, Real Estate Business, and Other Businesses segments also contributed to the rise in operating revenues.

Operating income was up 0.1% from the previous fiscal year to ¥135.3 billion, the seventh consecutive rise. The increase was realized despite a ¥14.5 billion expansion in maintenance and miscellaneous expenses due to efforts to improve safety, and an increase in the cost of sales in the Sales of Goods and Food Services segment.

Net income rose 22.1% from the previous fiscal year to ¥56.7 billion, the first expansion in two fiscal periods. The increase was due to a 6.2% improvement in the loss on net financial expenses to a loss of ¥36.9 billion, while additions to reserves in the previous fiscal year for expenses for disposal of products containing PCB, and for earthquake resistance reinforcements, were not repeated during the subject fiscal year.

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 from other modes of transportation and rival railway companies, as well as economic conditions, and the falling birthrate and aging population.

The Sales of Goods and Food Services segment's revenues primarily consist of income from merchandise sales and restaurant operations. Revenue in this segment is influenced by economic conditions, and competition from other retailers and restaurants. Because businesses in this segment are operated at many stations and in surrounding areas, the number of passengers also has an impact. However, because the number of people using stations remains relatively stable, there is less of an impact from such factors on revenue in this segment compared to other companies in the same industry. 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.

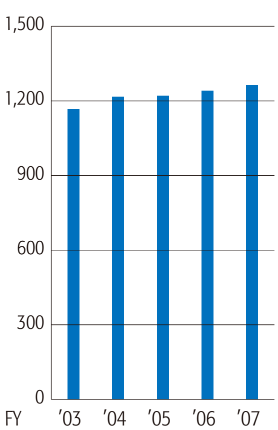
The Other Businesses segment's revenues primarily consist of income from hotel and travel agency operations. Hotel revenue is affected mainly by economic conditions, room rates, and competition from other hotels. Travel agency revenue is affected mainly by competition from other agents, as well as anything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

■ *Expenses*

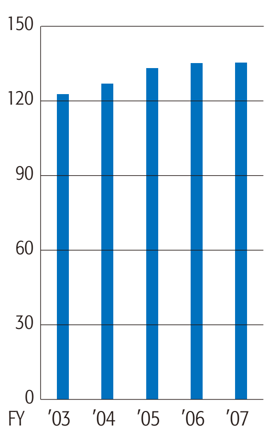
Personnel costs declined ¥3.6 billion from the previous fiscal year to ¥272.5 billion. With many employees taking advantage of JR-West's early retirement program, staff numbers necessary to maintain operations are secured through new hires and other means. Both employee numbers and personnel costs have declined as a result.

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 placing the highest priority on ensuring safety. However, in response to the serious accident that occurred when a train derailed on the Fukuchiyama Line between Tsukaguchi and

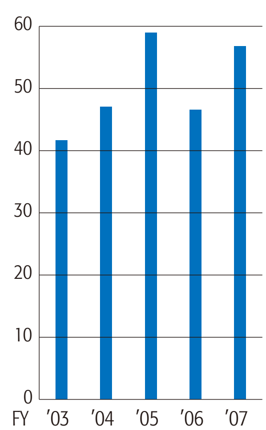
Operating Revenues
(Billion ¥)



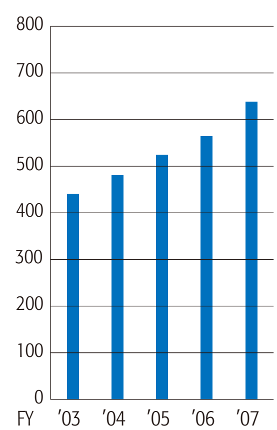
Operating Income
(Billion ¥)



Net Income
(Billion ¥)



Total Net Assets
(Billion ¥)



Amagasaki, we have formulated a Safety Enhancement Plan and are currently implementing measures based on it. 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. Since April 1, 2004, annual rail usage charges have been renegotiated every three years, and determined in consideration of interest rate fluctuations and other factors. As a result, expenses paid for the subject fiscal year amounted to approximately ¥16.6 billion.

Among other expenses, interest expense is a major factor. The JR-West Group's total interest expense for the subject fiscal year declined ¥2.5 billion to ¥37.2 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 2007 amounted to ¥188.6 billion (up ¥24.5 billion year on year). This was due mainly to an increase in income before income taxes and minority interests.

Net cash used in investing activities totaled ¥131.7 billion (up ¥30.0 billion). This was due mainly to an increase in purchases of property, plant and equipment.

Net cash used in financing activities declined ¥14.7 billion from the previous fiscal year to ¥54.6 billion. This was due mainly to a ¥38.1 billion repayment of long-term debt and payables, and payment of dividends.

As a result, cash and cash equivalents at March 31, 2007, amounted to ¥57.5 billion, an increase of ¥2.1 billion compared to March 31, 2006.

■ *Capital Demand and Capital Expenditures*

JR-West made capital expenditures totaling ¥183.4 billion in fiscal 2007, of which the Transportation Operations segment accounted for ¥146.1 billion, the Sales of Goods and Food Services segment ¥3.9 billion, the Real Estate Business segment ¥23.2 billion, and the Other Businesses segment ¥10.1 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 expenditures 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 aged 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. The JR-West Group anticipates capital expenditures for these projects to be approximately ¥170.0 billion at this point, with completion scheduled for fiscal 2012.

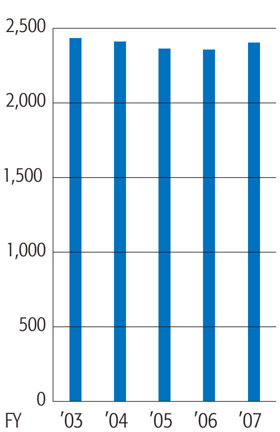
Further, JR-West has formulated a Safety Enhancement Plan in response to the serious accident that occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations, which includes infrastructure-related measures such as operational safety equipment necessary to further enhance safety, and calls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

■ *Liquidity and Financing*

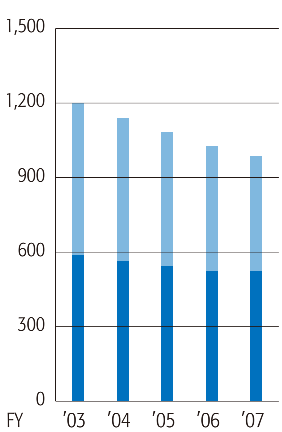
The JR-West Group receives substantial amounts of cash on a daily basis mainly from the Transportation Operations segment, ensuring a sufficient level of cash flow. At the same time, however, we recognize that improving financial efficiency is very important in terms of business management. As part of our efforts in this area in October 2002 we introduced a cash management service (CMS), ensuring effective utilization of Group funds.

In terms of financing, JR-West typically procures funds required for repayment of existing debt, capital expenditures 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.

Total Assets
(Billion ¥)



Long-Term Debt and Payables
(Billion ¥)



Long-term payables
Long-term debt

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

Basic Management Policies

The JR-West Group will work together as a group to foster a corporate culture which places a top priority on safety, concentrating on its core business of railway operations. We will further seek to regain trust as quickly as possible, and pursue sustainable development as a corporate group.

The JR-West Group, with railway operations as its core business, is engaged in sales of goods and food services, real estate and other businesses aimed at providing services mainly to railway passengers, as well as efficient utilization of assets in the vicinity of railway stations. In its business development, the Company works to strengthen its sense of unity, as well as effectively utilize its business assets and otherwise further strengthen its management foundation as a means of attaining sustainable growth and enhancement of corporate value as a group.
Going forward, JR-West will continue to strive to improve its corporate value by accurately identifying market trends, providing high-quality services and products which customers repeatedly select with confidence, and implementing various measures in a strategic and timely manner. Amid a difficult operating environment, these efforts will be made in accordance with the Corporate Philosophy and Safety Charter, and founded on the principle of safety as the highest priority.

Consolidated Balance Sheets

West Japan Railway Company and its consolidated subsidiaries
As of March 31, 2007, 2006 and 2005

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
ASSETS				
Current assets:				
Cash (Notes 3 and 11)	**¥ 57,814**	¥ 56,093	¥ 62,901	**$ 489**
Marketable securities (Note 4)	**—**	3	2	**—**
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	**2,483**	2,133	2,788	**21**
Trade	**94,593**	83,564	72,411	**801**
Less allowance for doubtful accounts	**(397)**	(351)	(308)	**(3)**
Inventories (Note 6)	**19,379**	17,939	15,696	**164**
Income taxes refundable (Note 14)	**329**	194	48	**2**
Deferred income taxes (Note 14)	**18,679**	19,426	19,079	**158**
Prepaid expenses and other current assets (Note 5)	**33,217**	28,855	41,500	**281**
Total current assets	**226,100**	207,859	214,120	**1,916**
Investments:				
Unconsolidated subsidiaries and affiliates (Note 7)	**41,013**	38,264	36,927	**347**
Other securities (Notes 4 and 11)	**23,834**	26,762	16,767	**201**
	64,847	65,027	53,695	**549**
Property, plant and equipment (Notes 8, 9, 11 and 12)**:**				
Land	**658,519**	655,311	662,910	**5,580**
Buildings and structures	**2,681,260**	2,639,039	2,614,754	**22,722**
Machinery, equipment and vehicles	**1,039,468**	1,004,483	976,969	**8,809**
Tools, furniture and fixtures	**91,132**	84,552	79,684	**772**
Construction in progress	**66,296**	59,442	69,296	**561**
	4,536,677	4,442,829	4,403,613	**38,446**
Less accumulated depreciation	**(2,563,530)**	(2,491,949)	(2,420,952)	**(21,724)**
Property, plant and equipment, net	**1,973,146**	1,950,880	1,982,660	**16,721**
Deferred income taxes (Note 14)	**92,698**	88,022	73,014	**785**
Other assets	**44,872**	44,179	40,831	**380**
Total assets	**¥2,401,667**	¥2,355,969	¥2,364,322	**$20,353**

See accompanying notes to consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
LIABILITIES AND NET ASSETS				
Current liabilities:				
Short-term loans (Note 10)	**¥ 13,137**	¥ 14,445	¥ 13,420	**$ 111**
Current portion of long-term debt (Notes 10 and 11)	**49,352**	88,904	30,888	**418**
Current portion of long-term payables (Note 12)	**36,562**	36,170	38,623	**309**
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**3,581**	5,823	4,356	**30**
Trade	**170,967**	145,145	126,566	**1,448**
Prepaid railway fares received	**30,507**	30,503	30,434	**258**
Deposits and advances received	**130,841**	115,269	159,232	**1,108**
Accrued expenses	**60,213**	65,419	62,587	**510**
Accrued income taxes (Note 14)	**20,474**	27,946	21,307	**173**
Allowance for loss on restructuring of a subsidiary (Note 1(10))	**—**	259	—	**—**
Deferred income taxes (Note 14)	**198**	—	—	**1**
Other current liabilities	**12,918**	11,259	9,848	**109**
Total current liabilities	**528,757**	541,148	497,263	**4,480**
Long-term debt (Notes 10, 11 and 22(1))	**473,192**	435,663	512,362	**4,010**
Long-term payables (Note 12)	**427,689**	464,205	499,794	**3,624**
Accrued retirement benefits (Note 16)	**219,693**	201,677	199,779	**1,861**
Allowance for antiseismic reinforcement measures (Note 1(11))	**9,931**	14,400	—	**84**
Allowance for environmental safety measures (Note 1(12))	**7,426**	7,543	—	**62**
Deferred income taxes (Note 14)	**113**	76	76	**0**
Other long-term liabilities (Note 11)	**97,012**	99,230	105,211	**822**
Minority interests	**—**	27,769	25,476	**—**
Contingent liabilities (Note 18)				
Net assets:				
Shareholders' equity (Note 17):				
Common stock:				
Authorized – 8,000,000 shares;				
Issued and outstanding – 2,000,000 shares	**100,000**	100,000	100,000	**847**
Capital surplus	**55,000**	55,000	55,000	**466**
Retained earnings (Note 22(2))	**443,658**	398,910	365,303	**3,759**
Less treasury stock, at cost	**(327)**	(327)	(327)	**(2)**
Total shareholders' equity	**598,331**	553,583	519,976	**5,070**
Valuation and translation adjustments:				
Net unrealized holding gain on securities	**8,864**	10,670	4,381	**75**
Net deferred gain on hedging instruments	**348**	—	—	**2**
Total valuation and translation adjustments	**9,212**	10,670	4,381	**78**
Minority interests	**30,305**	—	—	**256**
Total net assets	**637,849**	564,254	524,357	**5,405**
Total liabilities and net assets	**¥2,401,667**	¥2,355,969	¥2,364,322	**$20,353**

Consolidated Statements of Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Operating revenues	**¥1,262,935**	¥1,240,098	¥1,220,847	**$10,702**
Operating expenses (Note 1 (9))**:**				
Transportation, other services and cost of sales	**919,294**	899,513	880,106	**7,790**
Selling, general and administrative expenses (Note 13)	**208,299**	205,367	207,640	**1,765**
	1,127,593	1,104,880	1,087,747	**9,555**
Operating income	**135,341**	135,218	133,100	**1,146**
Other income (expenses):				
Interest and dividend income	**331**	372	330	**2**
Interest expense	**(37,298)**	(39,799)	(42,653)	**(316)**
Equity in earnings of affiliates	**1,016**	1,214	239	**8**
Amortization of prior service cost (Note 1(8))	**(2,142)**	4,039	(715)	**(18)**
Loss on impairment of fixed assets (Notes 2(1) and 9)	**(242)**	—	(4,429)	**(2)**
Provision of allowance for antiseismic reinforcement measures (Note 1(11))	**—**	(14,400)	—	**—**
Provision of allowance for environmental safety measures (Note 1(12))	**—**	(7,543)	—	**—**
Other, net (Note 18)	**3,864**	794	19,539	**32**
	(34,469)	(55,321)	(27,688)	**(292)**
Income before income taxes and minority interests	**100,872**	79,896	105,411	**854**
Income taxes (Note 14)**:**				
Current	**44,320**	50,280	45,412	**375**
Deferred	**(2,816)**	(19,306)	(1,424)	**(23)**
	41,504	30,974	43,987	**351**
Income before minority interests	**59,368**	48,922	61,424	**503**
Minority interests	**(2,576)**	(2,396)	(2,428)	**(21)**
Net income	**¥ 56,791**	¥ 46,525	¥ 58,996	**$ 481**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net deferred gain on hedging instrument	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	¥100,000	¥55,000	¥319,491	¥(327)	¥474,165	¥ 5,597	¥ —	¥ 5,597	¥ —	¥479,762
Net income for the year	—	—	58,996	—	58,996	—	—	—	—	58,996
Cash dividends	—	—	(13,000)	—	(13,000)	—	—	—	—	(13,000)
Bonuses to directors and corporate auditors	—	—	(193)	—	(193)	—	—	—	—	(193)
Increase in retained earnings resulting from merger of consolidated and unconsolidated subsidiaries	—	—	9	—	9	—	—	—	—	9
Net changes in items other than shareholders' equity	—	—	—	—	—	(1,216)	—	(1,216)	—	(1,216)
Balance at March 31, 2005	¥100,000	¥55,000	¥365,303	¥(327)	¥519,976	¥ 4,381	¥ —	¥ 4,381	¥ —	¥524,357
Net income for the year	—	—	46,525	—	46,525	—	—	—	—	46,525
Cash dividends	—	—	(13,000)	—	(13,000)	—	—	—	—	(13,000)
Bonuses to directors and corporate auditors	—	—	(92)	—	(92)	—	—	—	—	(92)
Decrease in retained earnings resulting from inclusion of a subsidiary in consolidation	—	—	(41)	—	(41)	—	—	—	—	(41)
Increase in retained earnings resulting from merger of consolidated and unconsolidated subsidiaries	—	—	215	—	215	—	—	—	—	215
Net changes in items other than shareholders' equity	—	—	—	—	—	6,289	—	6,289	—	6,289
Balance at March 31, 2006	¥100,000	¥55,000	¥398,910	¥(327)	¥553,583	¥10,670	¥ —	¥10,670	¥ —	¥564,254
Reclassified balance at March 31,2006	**—**	**—**	**—**	**—**	**—**	**—**	**348**	**348**	**30,305**	**30,654**
Net income for the year	**—**	**—**	**56,791**	**—**	**56,791**	**—**	**—**	**—**	**—**	**56,791**
Cash dividends	**—**	**—**	**(12,000)**	**—**	**(12,000)**	**—**	**—**	**—**	**—**	**(12,000)**
Decrease in retained earnings resulting from merger of consolidated subsidiaries	**—**	**—**	**(43)**	**—**	**(43)**	**—**	**—**	**—**	**—**	**(43)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(1,806)**	**—**	**(1,806)**	**—**	**(1,806)**
Balance at March 31, 2007	**¥100,000**	**¥55,000**	**¥443,658**	**¥(327)**	**¥598,331**	**¥ 8,864**	**¥348**	**¥ 9,212**	**¥30,305**	**¥637,849**

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net deferred gain on hedging instrument	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$847	$466	$3,380	$(2)	$4,691	$ 90	$—	$ 90	$ —	$4,781
Reclassified balance at March 31, 2006	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**	**256**	**259**
Net income for the year	**—**	**—**	**481**	**—**	**481**	**—**	**—**	**—**	**—**	**481**
Cash dividends	**—**	**—**	**(101)**	**—**	**(101)**	**—**	**—**	**—**	**—**	**(101)**
Decrease in retained earnings resulting from merger of consolidated subsidiaries	**—**	**—**	**(0)**	**—**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(15)**	**—**	**(15)**	**—**	**(15)**
Balance at March 31, 2007	**$847**	**$466**	**$3,759**	**$(2)**	**$5,070**	**$ 75**	**$2**	**$ 78**	**$256**	**$5,405**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Millions of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash flows from operating activities				
Income before income taxes and minority interests	**¥ 100,872**	¥ 79,896	¥ 105,411	**$ 854**
Adjustments for:				
Depreciation and amortization	**112,827**	111,900	113,682	**956**
Loss on impairment of fixed assets	**242**	—	4,429	**2**
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	**31,076**	58,328	38,526	**263**
Loss on disposal of property, plant and equipment	**12,692**	13,368	19,342	**107**
Amortization of (negative) goodwill arising from consolidation	**—**	(18)	181	**—**
Decrease in allowance for doubtful accounts	**(1)**	(717)	(48)	**(0)**
Increase (decrease) in accrued retirement benefits	**18,016**	1,711	(9,154)	**152**
Decrease in accrued bonuses	**(7)**	(1,625)	(1,194)	**(0)**
(Decrease) increase in other accruals	**(4,649)**	22,212	9	**(39)**
Interest and dividend income	**(331)**	(372)	(330)	**(2)**
Interest expense	**37,298**	39,799	42,653	**316**
Net gain on sales of investments in securities	**—**	(77)	(25,035)	**—**
Equity in earnings of affiliates	**(1,016)**	(1,214)	(239)	**(8)**
Gain on contributions received for construction	**(31,714)**	(58,724)	(38,919)	**(268)**
Increase (decrease) in notes and accounts receivable	**(10,731)**	(8,476)	(9,709)	**(90)**
(Increase) decrease in inventories	**(1,439)**	(2,159)	544	**(12)**
Increase (decrease) in notes and accounts payable	**20,738**	(12,877)	4,065	**175**
Increase (decrease) in accrued consumption taxes	**2,039**	(821)	(4,611)	**17**
Other	**(7,293)**	10,050	(518)	**(61)**
Subtotal	**278,617**	250,184	239,084	**2,361**
Interest and dividend income received	**265**	373	323	**2**
Interest paid	**(37,398)**	(40,271)	(43,044)	**(316)**
Income taxes paid	**(52,865)**	(46,205)	(53,392)	**(448)**
Net cash provided by operating activities	**188,618**	164,080	142,970	**1,598**
Cash flows from investing activities				
Payments for time deposits with a maturity of more than three months	**(335)**	(12,160)	(660)	**(2)**
Proceeds from time deposits with a maturity of more than three months	**765**	12,160	661	**6**
Purchases of property, plant and equipment	**(175,024)**	(156,155)	(145,371)	**(1,483)**
Proceeds from sales of property, plant and equipment	**4,272**	4,172	7,039	**36**
Contributions received for construction	**41,858**	42,889	40,284	**354**
Increase in investments in securities	**(1,961)**	(513)	(1,556)	**(16)**
Proceeds from sales of investments in securities	**—**	329	26,436	**—**
Increase in long-term loans receivable	**(689)**	(282)	(10,129)	**(5)**
Collection of long-term loans receivable	**266**	10,396	672	**2**
Other	**(928)**	(2,612)	(2,295)	**(7)**
Net cash used in investing activities	**(131,776)**	(101,765)	(84,918)	**(1,116)**
Cash flows from financing activities				
Increase in short-term loans	**2,139**	2,863	1,437	**18**
Proceeds from long-term loans	**57,100**	12,300	32,000	**483**
Repayment of long-term loans	**(89,135)**	(30,983)	(61,373)	**(755)**
Proceeds from issuance of bonds	**29,981**	—	10,000	**254**
Repayment of long-term payables	**(36,093)**	(38,425)	(37,504)	**(305)**
Cash dividends paid to the Company's shareholders	**(12,002)**	(13,001)	(12,972)	**(101)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(112)**	(112)	(112)	**(0)**
Other	**(6,566)**	(2,038)	2,045	**(55)**
Net cash used in financing activities	**(54,690)**	(69,397)	(66,480)	**(463)**
Net increase (decrease) in cash and cash equivalents	**2,151**	(7,083)	(8,427)	**18**
Cash and cash equivalents at beginning of year	**55,433**	62,241	70,655	**469**
Increase in cash and cash equivalents arising from merger of consolidated and unconsolidated subsidiaries and initial consolidation of subsidiaries	**—**	275	14	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 57,584**	¥ 55,433	¥ 62,241	**$ 488**

See accompanying notes to consolidated financial statements.

West Japan Railway Company and its consolidated subsidiaries
March 31, 2007

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

Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of West Japan Railway Company (the "Company") and 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 ¥118 = U.S.$1.00, the exchange rate prevailing on March 31, 2007. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted, amounts of less than one million yen 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.

During the year ended March 31, 2007, Daitetsu Kogyo Co., Ltd., an affiliate, changed its fiscal year end from February 28 to March 31. Accordingly, the accompanying consolidated financial statements include the Company's equity in the undistributed earnings of the affiliate for the thirteen-month period from March 1, 2006 through March 31, 2007.

All assets and liabilities of the subsidiaries are revalued 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 respective 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 and 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 net assets. 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) 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. This is expensed primarily as "Amortization of prior service cost" in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005.

(9) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between 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 the size of 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 then ended decreased by the same amount.

(10) 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.

(11) 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.

(12) 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 Japan Environment Safety Corporation. Other expenses related to the disposal which cannot be reasonably estimated at the present time have not been provided for.

(13) 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

(1) Loss on impairment of fixed assets

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries adopted an 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 from the amount which would have been recorded under the previous method.

(2) Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8 issued on December 9, 2005).

Under these accounting standard and guidance, certain items which were previously presented as assets or liabilities are now presented as components of net assets. Such items include minority interests and deferred gain or loss on derivative instruments.

Total shareholders’ equity prior to the adoption of this accounting standard amounted to ¥607,195 million ($5,145 million) at March 31, 2007.

(3) Financial instruments

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 revised on August 11, 2006) and “Practical Guidance on Accounting for Financial Instruments” (Report No. 14 revised by the Accounting Standards Committee of the Japanese Institute of Certified Public Accountants on October 20, 2006).

As a result of the adoption of these accounting standard and practical guidance, bond discount receivables of ¥18 million ($0 million), which arose from the bond issuances at July 28, 2006 and February 19, 2007, were deducted from the respective nominal amounts.

(4) Business combinations

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Business Combinations” (Business Accounting Council, issued on October 31, 2003) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 revised on December 22, 2006).

(5) Deferred assets

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted “Tentative Solution on Accounting for Deferred Assets” (ASBJ Practical Issues Task Force No. 19 issued on August 11, 2006).

3. Cash and Cash Equivalents

The balances of cash reflected in the consolidated balance sheets at March 31, 2007, 2006 and 2005 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
	2007	2006	2005	**2007**
Cash	**¥57,814**	¥56,093	¥62,901	**$489**
Time deposits with an original maturity in excess of three months, included in cash	**(230)**	(660)	(660)	**(1)**
Cash and cash equivalents	**¥57,584**	¥55,433	¥62,241	**$488**

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, 2007, 2006 and 2005. 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 net assets, net of deferred income taxes.

Investments in marketable securities at March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen					
	2007			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	**¥6,752**	**¥20,807**	**¥14,054**	¥6,379	¥23,317	¥16,938
Debt securities:						
Government bonds	**2**	**2**	**0**	—	—	—
Subtotal	**6,755**	**20,810**	**14,054**	6,379	23,317	16,938
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**109**	**62**	**(47)**	109	78	(31)
Debt securities:						
Government bonds	**25**	**25**	**(0)**	25	25	(0)
Subtotal	**135**	**88**	**(47)**	135	103	(31)
Total	**¥6,890**	**¥20,898**	**¥14,007**	¥6,514	¥23,420	¥16,906

	Millions of yen			Millions of U.S. dollars		
	2005			**2007**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 6,430	¥13,245	¥6,814	**$57**	**$176**	**$119**
Debt securities:						
Government bonds	25	25	0	**0**	**0**	**0**
Subtotal	6,455	13,270	6,814	**57**	**176**	**119**
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	109	78	(31)	**0**	**0**	**(0)**
Debt securities:						
Government bonds	—	—	—	**0**	**0**	**(0)**
Subtotal	109	78	(31)	**1**	**0**	**(0)**
Total	¥6,565	¥13,349	¥6,783	**$58**	**$177**	**$118**

Sales of, and aggregate gain and loss on, investments in securities for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Sales	**¥—**	¥329	¥26,436	**$—**
Aggregate gain	**—**	77	25,050	**—**
Aggregate loss	**—**	—	14	**—**

At March 31, 2007, the redemption schedule for investments in securities by maturity date was as follows:

	Millions of yen		Millions of U.S. dollars	
	2007		**2007**	
	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	**¥—**	**¥27**	**$—**	**$0**
Corporate bonds	**—**	**2**	**—**	**0**
	¥—	**¥30**	**$—**	**$0**

The carrying value of investments in non-marketable securities at March 31, 2007, 2006 and 2005 was as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Unlisted equity securities	**¥2,841**	¥3,249	¥3,414	**$24**
Other	**93**	3,096	4,005	**0**
	¥2,935	¥6,345	¥7,419	**$24**

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, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Real estate for sale	**¥ —**	¥ —	¥ 16	**$ —**
Rails, materials, supplies, merchandise and contracts in process	**19,379**	17,939	15,680	**164**
	¥19,379	¥17,939	¥15,696	**$164**

7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Investments in:				
Unconsolidated subsidiaries	**¥ 6,668**	¥ 4,861	¥ 5,237	**$ 56**
Affiliates	**34,344**	33,402	31,690	**291**
	¥41,013	¥38,264	¥36,927	**$347**

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, is 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, 2007, 2006 and 2005 totaled ¥31,076 million ($263 million), ¥58,328 million and ¥38,526 million, respectively. The accumulated contributions deducted from property, plant and equipment at March 31, 2007, 2006 and 2005 amounted to ¥501,302 million ($4,248 million), ¥473,299 million and ¥419,147 million, respectively.

The compensation deducted from property, plant and equipment to replace the properties expropriated for the years ended March 31, 2007, 2006 and 2005 totaled ¥2,513 million ($21 million), ¥4,388 million and ¥6,510 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 determined to dispose of, and idle assets, primarily at each asset. Consequently, for the years ended March 31, 2007 and 2005, the Company and its consolidated subsidiaries wrote down the following 1 fixed asset and 24 fixed assets, respectively, to their respective recoverable value and recorded the related loss on impairment of fixed assets totaling ¥242 million ($2 million) and ¥4,429 million, respectively, in the consolidated statements of income for the years then ended:

	Millions of yen		Millions of U.S. dollars
	2007	2005	**2007**
Assets to be disposed of:			
Company houses held in Osaka City and other – 17 items:			
Land	**¥ –**	¥1,513	**$–**
Buildings and structures	**–**	791	**–**
Land held in Hiroshima City – 1 item	**242**	–	**2**
Idle assets:			
Land held in Mihara City, Hiroshima Prefecture and other – 5 items:			
Land	**–**	1,824	**–**
Buildings and structures	**–**	7	**–**
Other assets:			
Land for rental held for rental purposes in Osaka City and other – 2 items:			
Land	**–**	282	**–**
Buildings and structures	**–**	8	**–**
Total	**¥242**	¥4,429	**$2**

The recoverable value of the assets to be disposed of and the idle assets presented in the above table 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, 2007, 2006 and 2005 ranged from 0.15% to 0.99%, from 0.15% to 0.38%, and from 0.15% to 1.375%, respectively.

Long-term debt at March 31, 2007, 2006 and 2005 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
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	**$1,483**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 2.04% to 2.49%, due from 2022 through 2027	**74,981**	45,000	45,000	**635**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.0% to 8.5%, due in installments from 2008 through 2021	**74,009**	84,852	95,695	**627**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.77% to 3.1%, due in installments from 2008 through 2021	**175,628**	195,689	202,826	**1,488**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.7%, due in installments from 2008 through 2019	**7,110**	7,815	8,519	**60**
Other	**15,815**	16,210	16,210	**134**
	522,545	524,567	543,251	**4,428**
Less current portion	**(49,352)**	(88,904)	(30,888)	**(418)**
	¥473,192	¥435,663	¥512,362	**$4,010**

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2008	¥ 49,352	$ 418
2009	87,979	745
2010	62,765	531
2011	30,948	262
2012	44,768	379
2013 and thereafter	246,730	2,090
	¥522,545	$4,428

11. Pledged Assets

Assets pledged at March 31, 2007 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	**269**	**2**
Land	**190**	**1**
Buildings and structures	**21,674**	**183**
	¥22,364	**$189**

The indebtedness secured by such collateral at March 31, 2007 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	**¥ 650**	**$ 5**
Long-term loans included in long-term debt	**6,460**	**54**
Other current liabilities	**2,103**	**17**
	¥9,213	**$78**

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, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2008 through 2017	**¥265,791**	¥300,899	¥338,360	**$2,252**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2008 through 2052	**189,282**	189,698	190,089	**1,604**
Other	**9,176**	9,778	9,967	**77**
	464,251	500,376	538,417	**3,934**
Less current portion	**(36,562)**	(36,170)	(38,623)	**(309)**
	¥427,689	¥464,205	¥499,794	**$3,624**

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, 2007, 2006 and 2005 were 4.33%, 4.37% and 4.50%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2008	¥ 36,562	$ 309
2009	34,555	292
2010	33,439	283
2011	29,975	254
2012	39,093	331
2013 and thereafter	290,625	2,462
	¥464,251	$3,934

13. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,403 million ($54 million), ¥6,770 million and ¥6,170 million for the years ended March 31, 2007, 2006 and 2005, respectively.

14. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 40.69% for the years ended March 31, 2007, 2006 and 2005.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31 2007, 2006 and 2005 has been omitted because the differences between these tax rates were 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, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Deferred tax assets:				
Accrued bonuses included in accrued expenses	**¥ 14,010**	¥ 14,010	¥ 14,612	**$ 118**
Accrued enterprise tax included in accrued income taxes	**1,931**	2,659	2,171	**16**
Accrued retirement benefits	**89,236**	81,860	71,004	**756**
Unrealized gain on property, plant and equipment	**6,698**	6,193	5,853	**56**
Tax loss carryforwards	**207**	445	226	**1**
Other	**23,415**	20,253	10,039	**198**
Gross deferred tax assets	**135,499**	125,422	103,908	**1,148**
Valuation allowance	**(5,444)**	(501)	(625)	**(46)**
Total deferred tax assets	**130,055**	124,920	103,282	**1,102**
Deferred tax liabilities:				
Unrealized holding gain on securities	**(5,702)**	(6,882)	(2,762)	**(48)**
Contributions for construction deducted from acquisition costs of property, plant and equipment	**(11,313)**	(9,104)	(6,944)	**(95)**
Gain on valuation of assets of consolidated subsidiaries	**(1,443)**	(1,443)	(1,443)	**(12)**
Other	**(530)**	(117)	(115)	**(4)**
Total deferred tax liabilities	**(18,989)**	(17,548)	(11,265)	**(160)**
Deferred tax assets, net	**¥111,065**	¥107,372	¥ 92,017	**$ 941**

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, 2007, 2006 and 2005, which would have been reflected in the consolidated 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

	2007			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥ 448**	**¥ 128**	**¥ 319**	¥ 425	¥ 124	¥ 301
Tools, furniture and fixtures	**1,975**	**1,168**	**807**	3,634	2,949	684
Software included in other assets	**299**	**248**	**51**	611	391	220
	¥2,723	**¥1,544**	**¥1,178**	¥4,671	¥3,465	¥1,206

	Millions of yen			Millions of U.S. dollars		
	2005			**2007**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥ 361	¥ 104	¥ 257	**$ 3**	**$ 1**	**$2**
Tools, furniture and fixtures	4,657	3,627	1,029	**16**	**9**	**6**
Software included in other assets	745	410	334	**2**	**2**	**0**
	¥5,764	¥4,142	¥1,621	**$23**	**$13**	**$9**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2007, 2006 and 2005 totaled ¥565 million ($4 million), ¥713 million and ¥1,013 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 assuming a nil residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2008	¥ 361	$3
2009 and thereafter	816	6
	¥1,178	$9

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007, 2006 and 2005 for finance lease transactions in which consolidated subsidiaries of the Company are the lessors and which are currently accounted for as operating leases:

	Millions of yen					
	2007			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	**¥2,725**	**¥ 836**	**¥1,888**	¥2,338	¥ 951	¥1,386
Tools, furniture and fixtures	**4,245**	**1,479**	**2,765**	3,483	1,486	1,997
	¥6,970	**¥2,315**	**¥4,654**	¥5,822	¥2,438	¥3,383

	Millions of yen			Millions of U.S. dollars		
	2005			**2007**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased property:						
Machinery, equipment and vehicles	¥2,388	¥ 776	¥ 1,612	**$23**	**$ 7**	**$16**
Tools, furniture and fixtures	2,913	1,432	1,481	**35**	**12**	**23**
	¥5,301	¥2,208	¥3,093	**$59**	**$19**	**$39**

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2007, 2006 and 2005 were ¥1,207 million ($10 million), ¥1,053 million and ¥866 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2007, 2006 and 2005, which was computed by the straight-line method over the respective lease terms, amounted to ¥1,087 million ($9 million), ¥933 million and ¥762 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2008	¥1,169	$ 9
2009 and thereafter	3,923	33
	¥5,092	$43

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 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, 2007, 2006 and 2005 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Retirement benefit obligation	**¥(376,375)**	¥(401,479)	¥(408,214)	**$(3,189)**
Plan assets at fair value	**11,943**	11,851	9,916	**101**
Unfunded retirement benefit obligation	**(364,431)**	(389,628)	(398,298)	**(3,088)**
Unrecognized net retirement benefit obligation at transition	**99,283**	130,741	162,200	**841**
Unrecognized actuarial loss	**48,009**	57,168	36,157	**406**
Unrecognized prior service cost	**(2,235)**	187	245	**(18)**
Net retirement benefit obligation	**(219,375)**	(201,529)	(199,694)	**(1,859)**
Prepaid pension cost	**318**	147	84	**2**
Accrued retirement benefits	**¥(219,693)**	¥(201,677)	¥(199,779)	**$(1,861)**

The components of retirement benefit expenses for the years ended March 31, 2007, 2006 and 2005 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2007	2006	2005	**2007**
Service cost	**¥15,852**	¥15,294	¥16,713	**$134**
Interest cost	**7,932**	8,133	9,020	**67**
Expected return on plan assets	**(264)**	(229)	(221)	**(2)**
Amortization of net retirement benefit obligation at transition	**31,458**	31,458	31,518	**266**
Amortization of actuarial loss	**7,291**	4,753	4,666	**61**
Amortization of prior service cost	**1,975**	(4,039)	743	**16**
	¥64,245	¥55,372	¥62,440	**$544**

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

	2007	2006	2005
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. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheets and consolidated statements of changes in net assets. The Company's legal reserve amounted to ¥11,327 million ($95 million) at March 31, 2007, 2006 and 2005.

Common stock and treasury stock

Movements in issued common stock and treasury stock during the year ended March 31, 2007 are summarized as follows:

Number of shares

	March 31, 2006	Increase	Decrease	**March 31, 2007**
Common stock	2,000,000	—	—	**2,000,000**
Treasury stock	885	—	—	**885**

18. Contingent Liabilities

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans to companies other than consolidated subsidiaries in the aggregate amount of ¥6,020 million ($51 million).

Expenditures related to a train accident on the Fukuchiyama Line amounted to ¥4,245 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

19. Amounts per Share

Amounts per share at March 31, 2007, 2006 and 2005 and for the years then ended were as follows:

	Yen			U.S. dollars
	2007	2006	2005	**2007**
Net assets	**¥303,906.52**	¥282,245.00	¥262,232.61	**$2,575**
Net income	**28,415.07**	23,281.96	29,462.96	**240**
Cash dividends	**6,000.00**	6,000.00	6,000.00	**50**

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. Diluted net income per share has not been presented for the years ended March 31, 2007, 2006 and 2005 since neither the Company nor any of its consolidated subsidiaries had any potentially dilutive stock at March 31, 2007, 2006 and 2005.

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.

20. Derivatives

Certain 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 forward foreign exchange contracts and interest-rate swaps; 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.

Certain 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 derivatives positions qualified for deferral hedge accounting.

21. 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, 2007, 2006 and 2005 is outlined as follows:

Millions of yen

							2007
	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	**¥ 848,586**	**¥208,185**	**¥ 62,725**	**¥143,438**	**¥1,262,935**	**¥ —**	**¥1,262,935**
Intergroup operating revenues and transfers	**16,391**	**43,993**	**13,308**	**156,884**	**230,578**	**(230,578)**	**—**
Operating revenues	**864,978**	**252,178**	**76,033**	**300,323**	**1,493,514**	**(230,578)**	**1,262,935**
Operating expenses	**767,703**	**247,125**	**54,814**	**287,814**	**1,357,457**	**(229,863)**	**1,127,593**
Operating income	**¥ 97,274**	**¥ 5,053**	**¥ 21,219**	**¥ 12,508**	**¥ 136,056**	**¥ (715)**	**¥ 135,341**
II. Total assets, depreciation and amortization and capital expenditures:							
Total assets	**¥1,792,324**	**¥ 76,218**	**¥282,757**	**¥256,404**	**¥2,407,704**	**¥ (6,037)**	**¥2,401,667**
Depreciation and amortization	**93,079**	**2,503**	**10,481**	**6,763**	**112,827**	**—**	**112,827**
Capital expenditures	**146,156**	**3,922**	**23,246**	**10,115**	**183,440**	**—**	**183,440**

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)	—
Operating revenues	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. Total assets, depreciation and amortization 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)	—
Operating revenues	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. Total assets, depreciation and amortization 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 U.S. dollars

	2007						
	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	**$ 7,191**	**$1,764**	**$ 531**	**$1,215**	**$10,702**	**$ —**	**$ 10,702**
Intergroup operating revenues and transfers	**138**	**372**	**112**	**1,329**	**1,954**	**(1,954)**	**—**
Operating revenues	**7,330**	**2,137**	**644**	**2,545**	**12,656**	**$(1,954)**	**10,702**
Operating expenses	**6,505**	**2,094**	**464**	**2,439**	**11,503**	**(1,947)**	**9,555**
Operating income	**$ 824**	**$ 42**	**$ 179**	**$ 106**	**$ 1,153**	**$ (6)**	**$ 1,146**
II. Total assets, depreciation and amortization and capital expenditures:							
Total assets	**$15,189**	**$ 645**	**$2,396**	**$2,172**	**$20,404**	**$ (51)**	**$20,353**
Depreciation and amortization	**788**	**21**	**88**	**57**	**956**	**—**	**956**
Capital expenditures	**1,238**	**33**	**197**	**85**	**1,554**	**—**	**1,554**

22. Subsequent Events

(1) Based on a resolution adopted at a meeting of the Board of Directors held on March 22, 2007, the Company determined to issue straight bonds on May 21, 2007 as follows:

Description	The 14th West Japan Railway Bonds
Issuance date	May 30, 2007
Total issuance amount	¥10,000 million ($84 million)
Issue price	¥99.98 ($0.84) with a face value of ¥100 ($0.84)
Annual interest rate	2.23%
Type	Unsecured
Maturity	May 28, 2027
Usage of funds	Repayment of long-term payables

(2) The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the shareholders of the Company held on June 22, 2007:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥3,000 = U.S.$25 per share)	¥6,000	$50

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, 2007, 2006 and 2005, and the related consolidated statements of income, changes in net assets, 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, 2007, 2006 and 2005, 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 (1) to the consolidated financial statements, the Company and its consolidated subsidiaries adopted an 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, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young Shin Nihon

Osaka, Japan
June 22, 2007

Ernst & Young ShinNihon