

## 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, 2010, 2009 and 2008, and the related non-consolidated statements of income and changes in net assets 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, 2010, 2009 and 2008, 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(5) to the non-consolidated financial statements, the Company changed its method of accounting for depreciation of property, plant and equipment effective the year ended March 31, 2008.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2010 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 LLC*

Osaka, Japan  
June 22, 2010

West Japan Railway Company  
Non-Consolidated Balance Sheets  
As of March 31, 2010, 2009 and 2008

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2010	2009	2008	2010
<b>Assets</b>				
<b>Current assets:</b>				
Cash	¥ 41,781	¥ 30,649	¥ 31,471	\$ 449
Accounts receivable	53,497	48,559	50,439	575
Less allowance for doubtful accounts	(447)	(242)	(169)	(4)
Inventories	10,411	9,014	8,015	111
Deferred income taxes (Note 9)	12,686	14,644	14,984	136
Prepaid expenses and other current assets (Note 3)	39,571	37,374	44,157	425
Total current assets	157,501	140,000	148,899	1,693
<b>Investments and advances:</b>				
Subsidiaries and affiliates (Note 3)	187,839	175,323	163,106	2,019
Other securities	9,944	9,888	15,413	106
Total investments	197,784	185,212	178,519	2,126
<b>Property, plant and equipment, at cost (Notes 4, 5, 6 and 7):</b>				
Railway (Note 7)	4,078,167	3,978,376	3,914,529	43,851
Ferry	–	1,270	1,229	–
Other operations	209,199	217,007	216,404	2,249
Construction in progress	65,526	55,912	76,390	704
	4,352,894	4,252,567	4,208,554	46,805
Less accumulated depreciation	(2,573,134)	(2,498,963)	(2,431,556)	(27,668)
Property, plant and equipment, net	1,779,760	1,753,603	1,776,997	19,137
Deferred income taxes (Note 9)	119,965	109,667	94,525	1,289
Other assets	31,938	26,623	24,005	343
Total assets	¥ 2,286,949	¥ 2,215,108	¥ 2,222,947	\$ 24,590

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2010	2009	2008	2010
<b>Liabilities and net assets</b>				
Current liabilities:				
Short-term loans ( <i>Notes 3 and 6</i> )	¥ 109,910	¥ 135,717	¥ 136,069	\$ 1,181
Current portion of long-term debt ( <i>Note 6</i> )	30,962	60,170	85,116	332
Current portion of long-term payables ( <i>Notes 3 and 7</i> )	30,308	33,791	34,918	325
Accounts payable ( <i>Note 3</i> )	131,918	126,640	145,562	1,418
Prepaid railway fares received	31,303	31,379	31,211	336
Deposits and advances received	44,701	55,703	77,493	480
Accrued expenses	42,600	46,076	48,108	458
Accrued income taxes ( <i>Note 9</i> )	6,868	20,110	27,175	73
Allowance for customer point programs	302	319	480	3
Other current liabilities	437	4,241	1,453	4
Total current liabilities	429,312	514,149	587,589	4,616
Long-term debt ( <i>Notes 6 and 14(1)</i> )	630,225	479,285	420,846	6,776
Long-term payables ( <i>Notes 3 and 7</i> )	330,586	361,113	394,845	3,554
Accrued retirement benefits	303,883	273,315	238,518	3,267
Allowance for antiseismic reinforcement measures	–	–	2,222	–
Allowance for environmental safety measures	9,039	10,193	11,466	97
Other long-term liabilities	15,799	16,260	15,012	169
Total long-term liabilities	1,289,534	1,140,169	1,082,912	13,865
Contingent liabilities ( <i>Note 11</i> )				
Net assets:				
Shareholders' equity ( <i>Note 12</i> ):				
Common stock:				
Authorized – 8,000,000 shares				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	1,075
Capital surplus	55,000	55,000	55,000	591
Retained earnings ( <i>Note 14(2)</i> )	442,024	435,008	403,444	4,752
Less treasury stock, at cost	(29,999)	(29,999)	(9,999)	(322)
Total shareholders' equity	567,024	560,009	548,444	6,097
Valuation and translation adjustments:				
Net unrealized holding gain on securities	1,077	780	4,000	11
Total valuation and translation adjustments	1,077	780	4,000	11
Total net assets	568,102	560,789	552,445	6,108
Total liabilities and net assets	¥2,286,949	¥2,215,108	¥2,222,947	\$ 24,590

*See accompanying notes to non-consolidated financial statements.*

West Japan Railway Company  
Non-Consolidated Statements of Income  
Years ended March 31, 2010, 2009 and 2008

	<i>Millions of yen</i>			<i>Millions of U.S. dollars (Note 1)</i>
	2010	2009	2008	2010
Operating revenues:				
Transportation	¥720,042	¥773,757	¥781,787	\$ 7,742
Transportation incidentals	20,160	21,874	22,274	216
Other operations	21,116	20,902	19,625	227
Miscellaneous	55,465	58,494	55,772	596
	<u>816,784</u>	<u>875,030</u>	<u>879,460</u>	<u>8,782</u>
Operating expenses ( <i>Note 8</i> ):				
Personnel	265,248	268,618	269,922	2,852
Energy	33,590	38,237	34,430	361
Maintenance	128,107	135,845	148,644	1,377
Depreciation	119,969	115,932	107,540	1,289
Rent	25,091	25,336	24,637	269
Miscellaneous taxes	29,359	29,124	28,639	315
Other	156,913	159,841	155,820	1,687
	<u>758,280</u>	<u>772,935</u>	<u>769,635</u>	<u>8,153</u>
Operating income	58,503	102,094	109,824	629
Other income (expenses):				
Interest and dividend income	1,232	1,333	1,054	13
Interest expense	(34,152)	(34,910)	(35,438)	(367)
Gain on sales of property, plant and equipment	7,157	4,556	8,016	76
Loss on disposal of property, plant and equipment	–	(345)	(1,104)	–
Amortization of prior service cost	–	–	(2,826)	–
Loss on impairment of fixed assets ( <i>Note 5</i> )	–	(51)	(4,103)	–
Provision of allowance for environmental safety measures	–	–	(4,400)	–
Other, net	1,538	1,865	5,067	16
	<u>(24,224)</u>	<u>(27,551)</u>	<u>(33,733)</u>	<u>(260)</u>
Income before income taxes	34,279	74,543	76,090	368
Income taxes ( <i>Note 9</i> ):				
Current	22,246	42,755	43,973	239
Deferred	(8,544)	(12,592)	(13,010)	(91)
	<u>13,702</u>	<u>30,162</u>	<u>30,962</u>	<u>147</u>
Net income	<u>¥ 20,577</u>	<u>¥ 44,380</u>	<u>¥ 45,128</u>	<u>\$ 221</u>

See accompanying notes to non-consolidated financial statements.

**West Japan Railway Company**  
**Non-Consolidated Statements of Changes in Net Assets**  
**Years ended March 31, 2010, 2009 and 2008**

*Millions of yen*

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Total valuation and translation adjustments	Total net assets
Balance at March 31, 2007	¥ 100,000	¥ 55,000	¥ 370,316	¥ –	¥ 525,316	¥ 8,003	¥ 8,003	¥ 533,320
Net income for the year	–	–	45,128	–	45,128	–	–	45,128
Cash dividends	–	–	(12,000)	–	(12,000)	–	–	(12,000)
Purchases of treasury stock	–	–	–	(9,999)	(9,999)	–	–	(9,999)
Net changes in items other than shareholders' equity	–	–	–	–	–	(4,003)	(4,003)	(4,003)
Balance at March 31, 2008	¥ 100,000	¥ 55,000	¥ 403,444	¥ (9,999)	¥ 548,444	¥ 4,000	¥ 4,000	¥ 552,445
Net income for the year	–	–	44,380	–	44,380	–	–	44,380
Cash dividends	–	–	(12,816)	–	(12,816)	–	–	(12,816)
Purchases of treasury stock	–	–	–	(19,999)	(19,999)	–	–	(19,999)
Net changes in items other than shareholders' equity	–	–	–	–	–	(3,220)	(3,220)	(3,220)
Balance at March 31, 2009	¥ 100,000	¥ 55,000	¥ 435,008	¥ (29,999)	¥ 560,009	¥ 780	¥ 780	¥ 560,789
Net income for the year	–	–	20,577	–	20,577	–	–	20,577
Cash dividends	–	–	(13,561)	–	(13,561)	–	–	(13,561)
Net changes in items other than shareholders' equity	–	–	–	–	–	297	297	297
Balance at March 31, 2010	¥ 100,000	¥ 55,000	¥ 442,024	¥ (29,999)	¥ 567,024	¥ 1,077	¥ 1,077	¥ 568,102

*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	Total valuation and translation adjustments	Total net assets
Balance at March 31, 2009	\$ 1,075	\$ 591	\$ 4,677	\$ (322)	\$ 6,021	\$ 8	\$ 8	\$ 6,029
Net income for the year	–	–	221	–	221	–	–	221
Cash dividends	–	–	(145)	–	(145)	–	–	(145)
Net changes in items other than shareholders' equity	–	–	–	–	–	3	3	3
Balance at March 31, 2010	\$ 1,075	\$ 591	\$ 4,752	\$ (322)	\$ 6,097	\$ 11	\$ 11	\$ 6,108

West Japan Railway Company  
Notes to Non-Consolidated Financial Statements

March 31, 2010

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

**Basis of Presentation 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 Financial Instruments and Exchange Act 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 ¥93 = U.S. \$1.00, the exchange rate prevailing on March 31, 2010. 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 have been 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 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 by the moving average method. Investments in non-marketable securities are stated at cost based on the moving average method.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### **1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)**

##### *(2) Inventories*

The Company's inventories consist of rails, materials and supplies and they are stated at lower of cost or net selling value, determined by the moving average method.

##### *(3) Property, plant and equipment (excluding leased assets)*

Property, plant and equipment are stated at cost (see Note 4). 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) Intangible assets*

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

##### *(5) Research and development costs and computer software*

Research and development costs are charged to income as incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, except if they are deemed to contribute to the generation of future income or cost savings. Any such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives, generally a period of 5 years.

##### *(6) Leases*

The Company has entered into contracts to lease certain equipment under noncancelable leases referred to as finance leases. Until the year ended March 31, 2008, finance leases other than those which transfer the ownership of the leased assets to the lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for as operating leases.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

##### (7) *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 the 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.

##### (8) *Allowance for customer point program*

Allowance for customer point program is provided for expected expenditures corresponding to the points granted to J-West card members, which are expected to be utilized by the card members in the following periods, at a reasonably estimated amount.

##### (9) *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 termination of employment occur.

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.



## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### **1. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)**

##### *(10) Allowance for antiseismic reinforcement measures*

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.

##### *(11) 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.

As the Company found soil pollution in a portion of land under development which it owns, an allowance has been provided at a reasonably estimated amount to meet expenditures of the related clean-up costs.

#### **2. Adoption of New Accounting Standards**

##### *(1) Change in the method of accounting for evaluation of securities*

Effective the year ended March 31, 2010, the Company has adopted “Accounting Standard for Financial Instruments” (Accounting Standards Board of Japan (“ASBJ”) Statement No.10 revised on March 10, 2008). Under this accounting standard, if future cash flows can be estimated for securities classified as other securities for which market prices are unavailable, they are determined at the present value of estimated future cash flows in the accompanying non-consolidated balance sheet as of March 31, 2010. Present value is calculated by discounting estimated future cash flows using the interest rate determined at Japanese government bond yields plus a credit spread premium.

The effect of this adoption on non-consolidated financial statements for the year ended March 31, 2010 was immaterial.

##### *(2) Partial amendments to accounting standard for retirement benefits (Part3)*

Effective the year ended March 31, 2010, the Company has adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3),” (ASBJ Statement No.19, issued on July 31, 2008).

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 2. Adoption of New Accounting Standards

##### (2) *Partial amendments to accounting standard for retirement benefits (Part3) (continued)*

The effect of this adoption on non-consolidated financial statements for the year ended March 31, 2010 was nil, because actuarial gain or loss did not incur resulting from this adoption.

##### (3) *Leases*

Effective the year ended March 31, 2009, the Company adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 revised by the ASBJ on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 revised by the ASBJ on March 30, 2007). Under these accounting standards, lease transactions commencing on or after April 1, 2008 other than those in which the ownership of the leased assets is transferred to the Company is accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee. Such leased assets under finance lease transactions are capitalized and depreciated over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the Company are accounted for in the same manner as operating leases.

The effect of this adoption on non-consolidated financial statements for the year ended March 31, 2009 was immaterial.

##### (4) *Accounting standard for measurement of inventories*

Effective the year ended March 31, 2008, the Company adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006). The effect of this adoption on the non-consolidated financial statements for the year ended March 31, 2008 was immaterial.

##### (5) *Change in the method of accounting for depreciation of property, plant and equipment*

In accordance with the 2007 revision of the Corporation Tax Law of Japan, effective April 1, 2007, the method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 was changed to the declining-balance method stipulated in the revised law.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 2. Adoption of New Accounting Standards

##### (5) *Change in the method of accounting for depreciation of property, plant and equipment (continued)*

The Company publicized the revised medium-term management targets of the group as important management challenges remained which mainly consisted of “Promotion of measures to enhance safety” and “Provision of quality services and products preferred by customers” at October 31, 2006. The Company completed the installation of ATS and quake-proof reinforcements of elevated railroads and so forth during the year ended March 31, 2007. The Company continuously engages in enhancing safety subsequent to April 1, 2007 and will also steadily go ahead with various projects in the railway business, such as preparing for the expansion of Kyushu Shinkansen to Hakata station to commence through-service operations between Kyushu and Sanyo Shinkansen at the end of the year ending March 31, 2011. In addition, the Company will steadily go ahead with its plan for the renovation of Osaka station and the development of the New North Building. The Company will also continuously improve the stations in order to make them convenient, attractive and selectable by more users such as via the installation of barrier-free facilities, which are more convenient and functional, and making changes to the designs of existing stations resulting from the development of commercial facilities in the stations.

Considering the above condition of investments and renovation related to buildings in the future, earlier depreciation of buildings would be able to reflect more properly the condition of buildings for operations, for instance stations.

In addition, in accordance with the 2007 revision of Corporation Tax Law of Japan, effective April 1, 2007, the method of accounting for depreciation of property, plant and equipment acquired before April 1, 2007 was changed. Property, plant and equipment acquired before April 1, 2007 which has been depreciated to their respective residual value are depreciated to memorandum value by the straight-line method over a period of 5 years. This change was made mainly in consideration of the Company’s buildings’ condition of disposition and the trend in accounting practice to set residual value at one yen.

The effect of this change was to increase depreciation expense included in operating expenses by ¥8,741 million and decrease operating income, and income before income taxes by the same amount for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method. In addition, depreciation expense with respect to the residual value of existing property, plant and equipment amounted to ¥6,765 million for the year ended March 31, 2008 and was included as a part of the increase in depreciation expense mentioned above.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 3. Balances with Subsidiaries and Affiliates

Effective the year ended March 31, 2010, the Company has adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on March 10, 2008) and “Guidance on Accounting Standard for Financial Instruments” (ASBJ Guidance No.19 issued on March 10, 2008).

At March 31, 2010, there are no investments in subsidiaries and affiliates with readily determinable fair value. Investments in subsidiaries and affiliates for which it is extremely difficult to determine the fair value are summarized as follows:

	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
Investment securities:		
Subsidiaries	¥ 113,704	\$ 1,222
Affiliates	25,866	278
	<u>¥ 139,570</u>	<u>\$ 1,500</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 3. Balances with Subsidiaries and Affiliates (continued)

Because no quoted market prices are available for the above securities, it is extremely difficult to determine the fair value.

Investments in and advances to subsidiaries and affiliates at March 31, 2010, 2009 and 2008 consisted of the following:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Investments in:				
Subsidiaries	¥ 113,704	¥ 113,143	¥ 98,352	\$ 1,222
Affiliates	25,866	25,619	25,319	278
Advances to subsidiaries	48,269	36,561	39,434	519
	<u>¥ 187,839</u>	<u>¥ 175,323</u>	<u>¥ 163,106</u>	<u>\$ 2,019</u>

Amounts due from and due to subsidiaries and affiliates at March 31, 2010, 2009 and 2008 are presented in the accompanying non-consolidated balance sheets as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Due from subsidiaries and affiliates:				
Short-term loans receivable included in prepaid expenses and other current assets	¥ 14,975	¥ 17,143	¥ 28,041	\$ 161
Due to subsidiaries and affiliates:				
Short-term loans	¥ 109,003	¥ 119,799	¥ 135,148	\$ 1,172
Current portion of long-term payables	288	288	288	3
Accounts payable	99,946	99,962	106,479	1,074
Long-term payables	1,112	1,400	1,688	11
	<u>¥ 210,349</u>	<u>¥ 221,449</u>	<u>¥ 243,603</u>	<u>\$ 2,261</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2010, 2009 and 2008 consisted of the following:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Land	¥ 640,813	¥ 640,307	¥ 640,410	\$ 6,890
Buildings	365,729	361,940	359,479	3,932
Railway fixtures	2,083,823	2,043,877	2,007,364	22,406
Rolling stock and other vehicles	867,958	832,626	823,120	9,332
Ships	4	997	992	0
Machinery and equipment	268,993	259,922	247,718	2,892
Furniture and fixtures	59,647	56,784	53,078	641
Leases	398	199	–	4
Construction in progress	65,526	55,912	76,390	704
	4,352,894	4,252,567	4,208,554	46,805
Less accumulated depreciation	¥ (2,573,134)	¥ (2,498,963)	¥ (2,431,556)	(27,668)
Property, plant and equipment, net	<u>¥ 1,779,760</u>	<u>¥ 1,753,603</u>	<u>¥ 1,776,997</u>	<u>\$ 19,137</u>

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 the acquisition costs of property, plant and equipment for the years ended March 31, 2010, 2009 and 2008 totaled ¥35,200 million (\$378 million), ¥53,338 million and ¥24,864 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2010, 2009 and 2008 were ¥603,841 million (\$6,492 million), ¥574,718 million and ¥525,033 million, respectively.

The compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2010, 2009 and 2008 totaled ¥6,124 million (\$65 million), ¥10,166 million and ¥3,416 million, respectively.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 5. 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 determined to dispose of and idle assets at each asset. Consequently, for the years ended March 31, 2009 and 2008, the Company wrote down the following fixed assets to their respective recoverable value and recorded a related loss on impairment of fixed assets totaling ¥51 million and ¥4,103 million, respectively, in the accompanying non-consolidated statements of income for the years then ended:

	<u>Millions of yen</u>
	<u>2008</u>
Assets to be disposed of:	
Rolling stock held in Chikushi District, Fukuoka Prefecture – 48 items	¥ 2,225
Idle assets:	
Land mainly held in Kobe City, Hyogo Prefecture – 29,000 m <sup>2</sup>	1,878
Total	<u>¥ 4,103</u>

Detailed information on loss on impairment of fixed assets for the year ended March 31, 2009 in the amount of ¥51 million was omitted because the amount involved was immaterial.

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.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 6. 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, 2010, 2009 and 2008 ranged from 0.25 % to 0.98%, from 0.26% to 1.17% , and from 0.66% to 1.20%, respectively.

Long-term debt at March 31, 2010, 2009 and 2008 is summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2017 through 2019	¥ 110,000	¥ 130,000	¥ 175,000	\$ 1,182
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.387% to 2.49%, due from 2013 through 2030	274,968	159,966	104,964	2,956
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.4% to 8.5%, due in installments from 2011 through 2020	48,983	40,347	47,373	526
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 1.10% to 2.36%, due from 2011 through 2026	209,700	190,700	163,200	2,254
Other	17,536	18,442	15,425	188
	<u>661,187</u>	<u>539,455</u>	<u>505,962</u>	<u>7,109</u>
Less current portion	<u>(30,962)</u>	<u>(60,170)</u>	<u>(85,116)</u>	<u>(332)</u>
	<u>¥ 630,225</u>	<u>¥ 479,285</u>	<u>¥ 420,846</u>	<u>\$ 6,776</u>

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, 2010 are summarized as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2011	¥ 30,962	\$ 332
2012	42,360	455
2013	81,496	876
2014	34,812	374
2015	43,403	466
2016 and thereafter	428,154	4,603
	<u>¥ 661,187</u>	<u>\$ 7,109</u>



## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 6. Short-Term Loans and Long-Term Debt (continued)

In order to achieve more efficient financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2010 and 2009 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2010	2009	2010
Lines of credit	¥ 100,000	¥ 100,000	\$ 1,075
Credit utilized	–	15,000	–
Available credit	¥ 100,000	¥ 85,000	\$ 1,075

#### 7. Long-Term Payables

Long-term payables at March 31, 2010, 2009 and 2008 are summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2011 through 2017	¥ 164,521	¥ 196,877	¥ 230,372	\$ 1,769
Fixed interest portion at 6.35% and 6.55%, due in installments from 2011 through 2052	187,860	188,365	188,838	2,020
Other	8,512	9,662	10,552	91
	360,894	394,905	429,764	3,880
Less current portion	(30,308)	(33,791)	(34,918)	(325)
	¥ 330,586	¥ 361,113	¥ 394,845	\$ 3,554

On October 1, 1991, the Company purchased Sanyo Shinkansen's facilities from Shinkansen Holding Corporation ("SHC") for a total price of ¥974,111 million. The Company is currently liable to the Japan Railway Construction, Transport & Technology Agency ("JRJT") for this purchase. In accordance with the terms of the purchase agreement, the interest rate applied to the variable interest portion of the payables for each fiscal year will be adjusted every year to a weighted-average interest rate to be determined based on the interest rate of certain of JRJT's long-term debt (as defined in the purchase agreement) assumed from SHC and outstanding as of April 1 of each respective year. The variable interest rates for the years ended March 31, 2010, 2009 and 2008 were 4.15%, 4.21% and 4.28%, respectively.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 7. Long-Term Payables (continued)

The aggregate annual maturities of long-term payables subsequent to March 31, 2010 are summarized as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2011	¥ 30,308	\$ 325
2012	39,424	423
2013	41,161	442
2014	40,002	430
2015	38,352	412
2016 and thereafter	171,646	1,845
	<u>¥ 360,894</u>	<u>\$ 3,880</u>

#### 8. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,262 million (\$67 million), ¥7,153 million and ¥6,554 million for the years ended March 31, 2010, 2009 and 2008, respectively.

#### 9. Income Taxes

The aggregate statutory tax rate applicable to the Company was 40.69% for the years ended March 31, 2010, 2009 and 2008.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2010, 2009 and 2008 has been omitted because the differences between these tax rates were less than five percent of the statutory tax rate.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 9. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities at March 31, 2010, 2009 and 2008 are summarized as follows:

	<i>Millions of yen</i>			<i>Millions of U.S. dollars</i>
	2010	2009	2008	2010
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 10,019	¥ 10,552	¥ 10,827	\$ 107
Accrued social insurance premiums included in accrued expenses	1,262	1,304	1,362	13
Accrued enterprise taxes included in accrued income taxes	889	1,894	2,406	9
Accrued retirement benefits	123,649	111,211	97,053	1,329
Allowance for antiseismic reinforcement measures	–	–	904	–
Allowance for environmental safety measures	3,729	4,174	4,672	40
Other	13,946	13,988	13,081	149
Valuation allowance	(5,981)	(5,860)	(5,863)	(64)
Total deferred tax assets	<u>147,515</u>	<u>137,266</u>	<u>124,443</u>	<u>1,586</u>
Deferred tax liabilities:				
Unrealized holding gain on securities	(739)	(535)	(2,744)	(7)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(14,124)	(12,419)	(12,189)	(151)
Total deferred tax liabilities	<u>(14,863)</u>	<u>(12,954)</u>	<u>(14,934)</u>	<u>(159)</u>
Deferred tax assets, net	<u>¥ 132,651</u>	<u>¥ 124,311</u>	<u>¥ 109,509</u>	<u>\$ 1,426</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 10. Leases

Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the Company are accounted for in the same manner as operating leases.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2010, 2009 and 2008, which would have been reflected in the accompanying non-consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	<i>Millions of yen</i>					
	2010			2009		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets for:						
Railway operations	¥ 705	¥ 450	¥ 254	¥ 861	¥ 435	¥ 426
Other operations	39	31	7	39	19	19
	<u>¥ 744</u>	<u>¥ 481</u>	<u>¥ 262</u>	<u>¥ 900</u>	<u>¥ 454</u>	<u>¥ 445</u>

	<i>Millions of yen</i>		
	2008		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets for:			
Railway operations	¥ 940	¥ 339	¥ 600
Other operations	42	10	31
	<u>¥ 982</u>	<u>¥ 350</u>	<u>¥ 632</u>

	<i>Millions of U.S. dollars</i>		
	2010		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets for:			
Railway operations	\$ 7	\$ 4	\$ 2
Other operations	0	0	0
	<u>\$ 8</u>	<u>\$ 5</u>	<u>\$ 2</u>

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 10. Leases (continued)

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2010, 2009 and 2008 totaled ¥170 million (\$1 million), ¥191 million and ¥349 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, 2010 for finance leases accounted for as operating leases are summarized as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2011	¥ 128	\$ 1
2012 and thereafter	134	1
	¥ 262	\$ 2

Future minimum lease payments subsequent to March 31, 2010 for noncancelable operating leases were as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2011	¥ 139	\$ 1
2012 and thereafter	284	3
	¥ 424	\$ 4

#### 11. Contingent Liabilities

At March 31, 2010, the Company was contingently liable for guarantees of loans to subsidiaries and an affiliate in the aggregate amount of ¥20,925 million (\$225 million).

The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for a train accident on the Fukuchiyama Line, which occurred on April 25, 2005, as well as other related costs; however, it is unable to estimate the amounts of such expenditures on a reasonable basis at the present time.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 12. Shareholders' Equity

The Corporation Law of Japan (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 non-consolidated balance sheets and non-consolidated statements of changes in net assets. The Company's legal reserve amounted to ¥11,327 million (\$121 million) at March 31, 2010, 2009 and 2008.

Treasury stock

Movements in treasury stock during the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

	<i>Number of shares</i>			
	March 31, 2009	Increase	Decrease	March 31, 2010
Treasury stock	62,653	–	–	62,653

	<i>Number of shares</i>			
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	17,434	45,219	–	62,653

	<i>Number of shares</i>			
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock	–	17,434	–	17,434

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 13. Amounts per Share

Amounts per share at March 31, 2010, 2009 and 2008 and for the years then ended were as follows:

	<i>Yen</i>			<i>U.S. dollars</i>
	2010	2009	2008	2010
Net assets	¥ 293,237.50	¥ 289,462.54	¥ 278,651.89	\$ 3,153
Net income	10,621.42	22,557.62	22,632.52	114
Cash dividends	7,000.00	7,000.00	6,000.00	75

Net assets per share have been computed based on 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, 2010, 2009 and 2008 since the Company had no potentially dilutive stock at March 31, 2010, 2009 and 2008.

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

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 14. Subsequent Events

- (1) Based on a resolution approved at a meeting of the Board of Directors held on March 24, 2010, the Company determined to issue bonds on June 4, 2010. Details of the bond issuance are as follows:

Description	The 27th Series of West Japan Railway Bonds
Issuance date	June 11, 2010
Total issuance amount	¥15,000 million (\$161 million)
Issue price	¥100 (\$1.07) with a face value of ¥100 (\$1.07)
Annual interest rate	1.360%
Type	Unsecured
Maturity	June 11, 2020
Usage of funds	Repayment of long-term payables and loans

Description	The 28th Series of West Japan Railway Bonds
Issuance date	June 11, 2010
Total issuance amount	¥15,000 million (\$161 million)
Issue price	¥100 (\$1.07) with a face value of ¥100 (\$1.07)
Annual interest rate	2.111%
Type	Unsecured
Maturity	June 11, 2030
Usage of funds	Repayment of long-term payables and loans

- (2) At a meeting held on May 18, 2010, the Board of Directors of the Company proposed the following distribution of retained earnings, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2010, and which is to be approved at a meeting of the shareholders of the Company to be held on June 23 2010:

	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
Cash dividends (¥3,500 = U.S.\$37 per share)	¥ 6,780	\$ 72