FINANCIAL SECTION

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Results of Operations

In fiscal 2011, ended March 31, 2011, operating revenues increased ¥23.3 billion year on year, or 2.0%, to ¥1,213.5 billion. At the end of the fiscal year, operations were affected by the Great East Japan Earthquake, which occurred on March 11, 2011. However, fiscal 2011 also saw the successful launch of direct services between the Sanyo Shinkansen and Kyushu Shinkansen lines, which accompanied the commencement of operations on all sectors of the Kyushu Shinkansen. In addition, we implemented promotional campaigns highlighting the comfort of traveling on the new N700 series train along with the convenience and price advantages of the Express Reservation and EX-IC systems. Further, revenues grew due to the absence of any influenza epidemics, which caused declines in revenues during the first half of the previous fiscal year, as well as due to the higher revenues in the real estate business and from travel agency operations.

Operating expenses were up ¥3.9 billion, or 0.4%, to ¥1,117.5 billion, largely due to higher non-personnel costs, which offset the decline in personnel expenses following lower retirement benefit expenses. Operating income increased ¥19.4 billion, or 25.4%, to ¥95.9 billion.

Non-operating expenses decreased ¥1.3 billion, due to factors such as a rise in equity in earnings of affiliates. Recurring profit increased ¥20.8 billion, or 43.3%, to ¥68.9 billion.

An extraordinary loss was recorded despite recording a gain on contributions received for construction. Key factors in recording the extraordinary loss were a loss on reduction of fixed assets associated with this construction as well as impairment losses recorded on the fixed assets of certain subsidiaries and the cost of removing asbestos at these subsidiaries. As a result of the above, net income increased ¥10.1 billion, or 40.7%, to ¥34.9 billion.

Factors Affecting 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 consequently is affected by numerous factors including competition from other modes of transportation, such as airlines, competition from rival railway companies, economic conditions, and the falling birthrate and aging population. Further, we believe that railway passengers make their railway usage decisions based on the safety and reliability of the railway while considering such factors as travel times, the comprehensiveness of the railway network, fares, and levels of comfort. Revenue from the Sanyo Shinkansen Line is mainly affected by the number of business and leisure passengers using the line. Such factors as the state of the economy and competition with domestic airlines may affect the number of such passengers. A large proportion of revenues from JR-West's Urban Network are derived from passengers commuting to and from work or school. Hence, these revenues are relatively unaffected by the economic cycle. However, the Group anticipates an impact on these revenues from demographic changes, including the declining birthrate, an aging population, and continuing urbanization. Within JR-West's Other Conventional Lines, revenue from passengers traveling between cities is affected by such factors as the economic cycle and competition with intercity bus services and private automobiles. Revenue from local lines is affected by such factors as competition with private automobiles, local economic conditions, and demographic trends.

The Sales of Goods and Food Services segment's revenues primarily consist of income from department store businesses, merchandise sales, and restaurant operations. Revenue in this segment is influenced by economic conditions as well as competition from other department stores, retailers, and restaurants. Because businesses in this segment are predominantly located within stations or in the surrounding area, 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 the leasing of 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 as a result tenants prefer offices that are conveniently located either on station premises or in the surrounding area. The Group's real estate leasing contracts mainly comprise fixed-rental leases and leases that specify a percentage of the tenant's sales as the rent fee. Consequently, revenues in the Real Estate Business segment are affected by fluctuations in tenant sales. Attracting popular stores to become tenants is necessary not only to bolster percentage-of-sales revenues but is also crucial for increasing the customer drawing power of the Group's stations and shopping centers. The refurbishment and renewal of stores is also a key factor in improving customer drawing power.

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 travel agents, as well as any factor that deters travel, such as adverse economic conditions or terrorist attacks. In addition to hotel and travel agency operations, the Other Businesses segment also comprises construction, advertising, and other business. These businesses are primarily conducted with the goal of expanding the customer base of the Company's mainstay railway business as well as enhancing its stations and other facilities.

Factors Affecting Expenses

Due to the Company's early retirement program leading to an increase in retirees, the Company is proactively recruiting new hires. In fiscal 2011, personnel costs declined ¥29.9 billion compared with the previous fiscal year, to ¥235.3 billion, as a result of reductions in retirement expenses.

In non-personnel costs, the characteristics of railway operations include (i) the ownership of a large amount of plant and equipment and a high ratio of costs related to their maintenance, which is necessary to ensure safety; and (ii) a high proportion of fixed costs, which are not linked to revenues. For these reasons, the JR-West Group is working to achieve structural reductions of costs through the introduction of rolling stock and equipment that is easily maintained, mechanization, and the improvement of existing infrastructure, while placing the highest priority on ensuring safety. However, we have also continued to implement safety improvement measures in response to the serious accident that occurred when a train derailed on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations. As a result, for the further enhancement of safety, we have estimated the additional costs the Company may need to incur in the foreseeable future in order to continue the implementation of safety improvement initiatives. Further, we anticipate that it may be necessary to incur additional costs to improve the Company's competitiveness when compared to competing modes of transportation by enhancing service quality, employing information technologies for sales promotion purposes, and utilizing outsourcers to improve operational efficiency.

In regard to railway usage charges, 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, taking consideration of interest rate fluctuations and other factors. As a result, expenses paid amounted to approximately ¥16.6 billion in fiscal 2011.

Among non-operating expenses, interest expense is a major factor. The JR-West Group pays close attention to the level of total long-term liabilities and total interest expense with the aim of ensuring the stability of management. In fiscal 2011, the Group's total interest expense declined ¥0.5 billion, to ¥33.7 billion, as a result of interest rate reductions on long-term liabilities.

Cash Flows

Net cash provided by operating activities increased ¥61.9 billion, to ¥223.2 billion. This result principally reflected an increase in income before income taxes and minority interests and a decrease in income taxes paid.

Net cash used in investing activities increased ¥37.5 billion, to ¥246.2 billion. This increase was mainly attributable to higher purchases of fixed assets.

Net cash provided by financing activities decreased ¥3.1 billion, to ¥51.4 billion. The most significant change was a decrease in proceeds from issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2011 increased ¥28.4 billion from the end of the previous fiscal year, to ¥79.5 billion.

Capital Demand and Capital Expenditures

JR-West made capital expenditures totaling ¥282.7 billion in fiscal 2011, of which the Transportation Operations segment accounted for ¥227.0 billion, the Sales of Goods and Food Services segment ¥6.5 billion, the Real Estate Business segment ¥41.1 billion, and the Other Businesses segment ¥8.0 billion. Capital investment in the Transportation Operations segment was mainly for railroad infrastructure centered on safety enhancements and purchases of new rolling stock to replace aged 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.

In December 2003, the Group announced its plans to renovate Osaka Station and develop the New North Building. The JR-West Group has since conducted capital expenditures for these projects, as well as for the expansion of the ACTY Osaka building, totaling approximately ¥210 billion. These projects were completed and began operation in May 2011.

Further, in response to the serious accident that occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations, JR-West is implementing various safety improvement measures, including installing operational safety equipment and other infrastructure-based initiatives necessary to further enhance safety, and is considering a range of other measures 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. For short-term financing, we raise necessary capital mainly through short-term bonds. We have further concluded commitment line contracts allowing procurement of funds in accordance with prescribed conditions, such as in the event of a major earthquake.

The following are issues related to operational and accounting matters that may have a significant bearing on the decisions of investors. Forward-looking statements in the following section are based on the assessments of JR-West as of June 23, 2011. Further, the following is a translation of the business risks included in a document the Company submitted pursuant to Japan's Financial Instruments and Exchange Act.

1 Relating to Safety

An accident may occur in the Company's railway operations that could seriously impact the lives or damage the personal property of passengers. This may also have a significant impact on the Company's management.

The Company, which engages in railway operations as its core business, considers it the most important management priority to provide reliable and high-quality transportation services that give its customers a sense of safety.

However, on April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki Stations. Resolving that such an accident would never again occur, the Company formulated a new Corporate Philosophy, which expresses its vision and its sense of values as a company, and a new Safety Charter, which defines its fundamental safety policies. It has since implemented a series of measures to realize this Corporate Philosophy and Safety Charter. Moreover, the Company has steadily carried out measures in response to the remarks, including "proposals" and "opinions," in the report on the investigation of the railway accident on the Fukuchiyama Line published by the Aircraft and Railway Accidents Investigation Commission in June 2007. In addition, based on the recommendations made by the Safety Promotion Expert Committee established in September 2007, the Company has formulated and been steadily implementing its Basic Safety Plan to run for five years from April 2008. The Company is combining these measures with other safety measures implemented up until the present time to realize higher levels of safety.

It has also been working to create a safety management system based on the Railway Safety Management Manual instituted in accordance with the amended Railway Business Law of Japan implemented in 2006.

2 Relating to Legal Matters in Railway Operations

1. The Railway Business Law (1986, Law No. 92)

Under the Railway Business Law, railway operators are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter the "MLIT") for each type of line and railway business operated (article 3). Railway operators are also required to receive approval from the MLIT for the upper limits of passenger fares and specified surcharges. Subject to prior notification, railway operators can then set or change these fares and surcharges within those upper limits (article 16). Railway operators are also required to give the MLIT advance notice of the elimination or suspension of railway operations. In the case of eliminating operations, the notice must be given at least one year in advance (articles 28 and 28-2).

2. The Law for Partial Amendment of the Law for Passenger Railway Companies and Japan Freight Railway Company (Hereinafter the "Amended JR Law") (2001, Law No. 61)

The Amended JR Law enacted on December 1, 2001 (hereinafter, the "date of enactment"), excluded JR-East, JR-Central, and JR-West (the three JR passenger railway companies operating on Japan's main island of Honshu, hereinafter the "JR passenger railway companies in Honshu") from the application of the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company (hereinafter the "JR Law") (1986, Law No. 88). Specifically, the JR passenger railway companies in Honshu are excluded from the scope of all regulations pertaining to approval of the offering for the purchase of shares and others and approval of long-term borrowings, as defined by the JR Law (article 5); and approval of transfers of important assets (article 8), among others.

According to the Amended JR Law's supplementary provisions, the MLIT, based on the details of the restructuring of Japanese National Railways (JNR) and in order to ensure the convenience of passengers and otherwise, shall issue guidelines relating to items that need to be considered for the time being with respect to the management by the JR passenger railway companies in Honshu and any operators that run all or part of their railway business as a result of assignations, mergers, divisions, or successions on or after the date of enactment, as designated by the MLIT (hereinafter, "new companies"). The guidelines' stipulations are outlined in the three points below. Those guidelines were issued on November 7, 2001, and applied on December 1, 2001. The MLIT may advise and issue instructions to any new companies to ensure operational management in accordance with those guidelines. Moreover, the amended JR Law enables the MLIT to issue recommendations and directives in the event that its operational management runs counter to the guidelines without any justifiable reason.

The guidelines' stipulated items:

(a) Items relating to ensuring alliances and cooperation among companies (among new companies or among any new company and Hokkaido Railway Company, Shikoku Railway Company, Kyushu Railway Company, and Japan Freight Railway Company) with respect to the establishment of appropriate passenger fares and surcharges, the unhindered utilization of railway facilities, and other factors relating to railway operations among those companies

(b) Items relating to the appropriate maintenance of railway routes currently in operation reflecting trends in transportation demand and other changes in circumstances following the restructuring of JNR and items relating to ensuring the convenience of users through the development of stations and other railway facilities

(c) Items relating to consideration that new companies should give to the avoidance of actions that inappropriately obstruct business activities or unduly hamper the interests of small and medium-sized companies operating businesses within the operational areas of the new companies that are similar to the businesses of the new companies

Also, regarding all bonds issued by the JR passenger railway companies in Honshu prior to the Amended JR Law's date of enactment, transitional measures are stipulated, such as the continuance following the date of enactment of the stipulation of general security in article 4 of the JR Law.

3 Relating to Establishment of and Changes to Fares and Surcharges

1. System and Procedure for Approval of Fares and Surcharges

The Railway Business Law stipulates that railway operators are required to obtain the approval of the MLIT when setting or changing the upper limits of passenger fares and Shinkansen limited express surcharges (hereinafter "fares and surcharges") (Railway Business Law, article 16, item 1).

Subject to prior notification, railway operators can then set or change fares and surcharges within those upper limits, as well as limited express surcharges on conventional lines and other charges (Railway Business Law, article 16, items 3 and 4).

Based on recent examples set by major private sector railway operators, the process of applying and receiving approval to change fares from the MLIT is as follows.

2. JR-West's Stance on Fare Revisions

(a) JR-West has not raised fares since its establishment in April 1987, other than to reflect the consumption tax introduction (April 1989) and subsequent revision (April 1997).

Major private sector railway operators apply for fare revisions, if, following a comprehensive management judgment that takes into account the operations of ancillary departments, they anticipate they will record a loss in after-tax net income in its railway operations. In the majority of cases, the revisions are implemented once the above-described procedures have been completed. In the case of the Company, revenues obtained from ancillary departments constitute a small percentage of its total revenues, and based on this it considers the timely implementation of fair revisions to be a necessary measure to secure a fair level of profit.

(b) The Company strives to promote efficient business management to secure profits and to progress measures toward rationalization. However, the Company considers that the fair level of profit should be at a level that enables it to fund dividend payments to its shareholders, future capital investment, and measures to strengthen its financial structure, on the assumption that it makes such efforts.

(c) The Company recognizes the need to independently conduct capital expenditures, which have a substantial impact on the cost structure of its railway operations, based upon its clearly defined management responsibility.

3. Stance of the Ministry of Land, Infrastructure, Transport and Tourism

With respect to the implementation of fare revisions by JR-West, the position of the MLIT is as follows:

(a) The MLIT will approve applications for the revision of the upper limits of fares from railway operators, including JR-West, upon conducting inspections to determine that the fares do not exceed the sum of reasonable costs and fair profits, based on the efficient management of those companies ("total cost") (Railway Business Law, article 16, item 2).

In addition, a three-year period is stipulated for the calculation of costs.

(b) Even if the railway operator has non-railway businesses, the calculation of total cost, which comprises reasonable costs and fair profits, including required dividend payments to its shareholders, is based only on the operator's railway operations. Further, railway operators are required to submit their capital expenditure plans for increasing transportation services to ease congestion of commuter services and for other improvements in passenger services. Upon inspections, the capital cost necessary for such enhancements may be approved for the calculation of total cost.

(c) Total cost is calculated using a "rate base method" that estimates the capital cost (interest payments, dividend payments, and other financial costs) arising from the provision of a fair and appropriate return, based on the opportunity cost concept, to the capital invested in the railway operations. The calculation of total cost is as follows:

total cost = operating cost[1] + operational return

- operational return = assets utilized in railway business operations (rate base) x operational return rate
- assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital[2]
- operational return rate = equity ratio[3] x return rate on equity[4] + borrowed capital ratio[3] x return rate on borrowed capital[4]

1 With respect to comparable costs among railway operators, in order to promote enhanced management efficiency, a "yardstick formula" is used to encourage indirect competition among respective operators. The results of those comparisons are issued at the end of every business year and form the basis for the calculation of costs.
2 Working capital = operating costs and certain stores
3 Equity ratio, 30%; Borrowed capital ratio, 70%
4 Return rate on equity is based on the average of yields to subscribers of public and corporate bonds, the overall industrial average return rate on equity, and the dividend yield ratio. Return rate on borrowed capital is based on the average actual rate on loans and other liabilities.

(d) Subject to prior notification to the MLIT, railway operators can set or change fares and surcharges or other charges within the upper limits approved. However, the MLIT can issue directives requiring changes in fares and surcharges by specifying the date therefor if the fares and surcharges submitted are deemed to fall within the following categories (Railway Business Law, article 16, item 5):

- The setting or change would lead to unjustifiable discrimination in the treatment of certain passengers.
- There is concern that the setting or change would give rise to unfair competition with other railway operators.

4 Relating to Plan for the Development of New Shinkansen Lines

1. Construction Plans for New Shinkansen Lines

The new Shinkansen lines are the five lines indicated in the plan for the Shinkansen line network that was decided pursuant to the 1970 Nationwide Shinkansen Railway Development Law, namely the Hokuriku Shinkansen Line (Tokyo–Osaka), the Hokkaido Shinkansen Line (Aomori–Sapporo), the Tohoku Shinkansen Line (Morioka–Aomori), the Kyushu Shinkansen Line (the Kagoshima route between Fukuoka–Kagoshima), and the Kyushu Shinkansen Line (the Nagasaki route between Fukuoka–Nagasaki). Of these lines, the Company is the operator of the Joetsu–Osaka segment of the Hokuriku Shinkansen Line.

Construction of the five lines was postponed due to deteriorating management conditions at JNR. However, the development scheme described below was created to solve the financial and other problems after the inauguration of JR companies, and construction has been progressed on a sequential basis. Until the present time, operations have commenced on the Hokuriku Shinkansen Line (between Takasaki–Nagano), the Tohoku Shinkansen Line (between Morioka–Shin-Aomori), and the Kyushu Shinkansen Line (between Hakata–Kagoshima-Chuo). Currently, the construction contractor, Japan Railway Construction, Transport and Technology Agency (JRTT), is progressing construction on the following sections of the three lines: the Hokuriku Shinkansen Line (between Nagano–Hakusan car maintenance center), the Hokkaido Shinkansen Line (between Shin-Aomori–Shin-Hakodate), and the Kyushu Shinkansen Line (Nagasaki route between Takeo Onsen–Isahaya).

Creation of the Development Scheme

- August 1988 (arrangement between the national government and ruling parties)
  Ruling on the start of construction according to a priority sequence and development standards for five segments of three Shinkansen lines
- December 1990 (arrangement between the national government and ruling parties)
  Ruling on a management separation for JR companies of the conventional lines running parallel with the new Shinkansen lines
- December 1996 (agreement between the national government and ruling parties)
  Ruling that cost burden by JR companies would be usage fees and other charges within the range of their expected benefits
- December 2000 (arrangement between the national government and ruling parties)
  Ruling on new segments for start of construction, and reviews of development standards and periods
- December 2004 (arrangement between the national government and ruling parties)
  Ruling on new segments for start of construction, and reviews of development standards and periods
  Details of the December 2004 arrangement between the national government and ruling parties on the Hokuriku Shinkansen Line
  - Between Nagano–Hakusan car maintenance center
    Assuming full development standards and following the completion of required approval procedures, construction was to begin on the segments between Toyama–Isurugi and Kanazawa–Hakusan car maintenance center at the beginning of fiscal 2006, targeting a coordinated completion date of the end of fiscal 2015. However, every effort was to be made to complete construction ahead of schedule.
  - Between Hakusan car maintenance center–Nanetsu
    For heightened efficiency, construction on the Fukui Station segment was to take place in coordination with construction for the elevation of the Echizen Railway Line. Following the completion of required approval procedures, construction was to begin at the beginning of fiscal 2006 with a targeted completion date of the end of fiscal 2009.
  - Between Nanetsu–Tsuruga
    Following the completion of necessary procedures, there was to be an immediate application for approval for the construction implementation plan.

Construction on the Hokuriku Shinkansen Line within the Company's Area of Operations

- August 1992
  Between Isurugi–Kanazawa (24 km): Construction commenced as a Shinkansen Railway Standard New Line (Super Express)
- April 2001
  Between Joetsu–Toyama (110 km): Construction commenced at full standard. (Prior to this, in September 1993 construction had commenced on the segment between Itoigawa–Shin-Kurobe as a Shinkansen Railway Standard New Line (Super Express), and at this point in time was changed to full standard.)
- April 2005
  Between Toyama–Kanazawa (59 km): Construction commenced at full standard. (Prior to this, in August 1992 construction had commenced on the segment between Isurugi–Kanazawa as a Shinkansen Railway Standard New Line (Super Express), and at this point in time was changed to full standard.)
  Fukui Station segment: Construction commenced
- April 2006
  Hakusan car maintenance center: Construction commenced

2. Cost Burden of the Development of New Shinkansen Lines

Regarding the construction cost for the development of new Shinkansen lines, based on the agreement in December 1996 between the national government and the ruling parties, in 1997 the Nationwide Shinkansen Railway Development Law and related laws were revised to stipulate that "the national government, local governments, and JR passenger railway companies would assume the cost of new Shinkansen lines," and that "the cost burden by JR passenger railway companies which mainly operate on new Shinkansen lines shall be paid out of their usage fees and other charges, with the upper limit to be determined by the range of expected benefits."

Also, those subsidies from the JRTT, of which part of its financial resource is provided by JR-East, JR-Central, and JR-West as payments for the purchase of existing Shinkansen lines, shall be considered to be part of the cost burden borne by the national government.

Following the arrangement made between the national government and the ruling parties in December 2004, it was determined that the cost burden of JR passenger railway companies, which correspond to the expected benefits generated accompanying the opening of the Hokkaido Shinkansen Line (Shin-Aomori–Shin-Hakodate) and the Hokuriku Shinkansen Line (Joetsu–Kanazawa), and other new Shinkansen lines, would be carefully investigated when these segments commenced operations. The Company opposes this ruling as it considers it to lack rationality if the existing Shinkansen operators are required to bear part of the construction costs of new Shinkansen developments on segments on which they do not operate based on the assumption that they receive corresponding external benefits.

Further, following the launch of studies by the national government and ruling parties into methods of securing financing for construction on segments where construction has not yet started, the MLIT has requested the Company to provide it with data to calculate usage fees and other charges prior to the start of operations on these segments. But at the present point in time, the Company has not determined operational plan and fare structure for the services. Moreover, future trends in social and economic conditions and trends among competing modes of transportation cannot be ascertained at the present point in time. Therefore, the Company's response is that it is extremely difficult to objectively and rationally calculate future usage fees at the current time.

3. The Company's Stance on the Hokuriku Shinkansen Line

Based on the December 2004 arrangement between the national government and ruling parties, the construction scheme of the Hokuriku Shinkansen Line was reviewed based on the premise that it would be developed at full standard. Based on this review, construction commenced on the segment as far as the Hakusan car maintenance center and the Fukui Station segment and an application for approval was made for a plan to implement construction on the segment between Nanetsu–Tsuruga.

At the present time, the Company's position is that the Hokuriku Shinkansen Line will be constructed in a westward direction. This is in accordance with the Company's previous contention and it will continue to appeal to the relevant national government organizations for an extension of segments to undergo construction. But even if segments to undergo construction are extended, then the Company considers it essential that the previous fundamental principles, namely that "the burden of the Company shall be within the limit of expected benefits" and of "the management separation from JR-West of its conventional lines running parallel with the new Shinkansen line segments," should be protected.

5 Relating to Changing Population Dynamics, such as the Declining Birthrate and Aging Population

According to the "Population Projections for Japan (birth rate medium variant and death rate medium variant estimates)" published by the National Institute of Population and Social Security Research in December 2006, Japan's total population of 127.77 million people in 2005 was set to enter a long standing depopulation process, and by 2046 was projected to fall below 100.00 million people, to 99.38 million people. The working-age population (15 to 64) peaked in 1995, and subsequently entered a depopulation phase. By 2005, it had fallen to 84.42 million people, and by 2030 it is forecast to decrease to 67.40 million people. In contrast, the old-age population (65 and over), which was 25.76 million people in 2005, was projected to increase to 36.67 million people by 2030.

Moreover, according to the "Population Projections for Japan by Prefecture" published by the said institute in May 2007, by 2005 population was decreasing in all regions excluding Minami Kanto, Chubu, and Kinki. The population in Kinki was forecast to decrease between 2005 and 2010, and the population in all regions was forecast to decrease by 2035. Further, the working-age population, and also the percentage of this age group relative to the total population is already declining in every prefecture, while the old-age population will increase until 2020. With the exception of certain prefectures, it is projected to exceed 30% of the population.

The JR-West Group's main area of operations is West Japan, where it operates businesses that include railway, retail, real estate, and hotel operations. Depopulation and the declining birthrate and aging population trends are forecast to continue in this region. If the depopulation, declining birthrate, and aging population processes take place as projected, in the long term, due to a decrease in the number of passengers and customers at the Group's facilities and stores, this may have an effect on the Group's business results.

6 Relating to Competition

1. Railway Operations

The railway operations of the JR-West Group compete with the operations of other railway companies, airline companies, and alternative modes of transportation such as buses or automobiles. In addition, its performance is affected by conditions in the Japanese economy, particularly economic trends in its main area of operations, West Japan. As a result, competition trends and economic conditions in the future may have an effect on the Group's financial condition and results of operations.

The Company's Sanyo Shinkansen Line and intercity transportation operations on its conventional lines are primarily in competition with domestic airline companies, buses, and automobiles. In particular, the Company faces extremely severe competition from airline companies due to the heightened convenience of traveling by air as a result of factors such as the opening of new airports, expanded airport capacities, increased number of flights, and lower airfares. The Company has been working to strengthen its competitiveness by improving the convenience for customers. It has enhanced its provision of high-speed transportation services by launching the new N700 Series Shinkansen rolling stock, increasing departures of its Nozomi Shinkansen services, and launching the EX-IC service on the Sanyo Shinkansen Line. In addition, in March 2011, the Company began operation of services on all lines of the Kyushu Shinkansen line as well as the Mizuho and Sakura Shinkansen services, which connect the Sanyo Shinkansen Line and the Kyusyu Shinkansen Line by means of a direct service. Leveraging these services, the Company will continue to enhance its competitive edge by offering higher quality services and faithfully reporting information while promoting interaction between both regions and the development of information infrastructure in these regions.

In its Urban Network, the Company competes with other railway operators and with automobiles and buses. In March 2011, it revised timetables, increasing the rapid services connecting directly through Osaka Station and beginning operation of special rapid services using trains with 12 cars on holidays. It also introduced new rolling stock featuring higher degrees of safety and comfort to be used in suburban areas and for express services. Through such initiatives, the Company is promoting usage of its services.

In addition, it has been heightening the convenience for railway passengers by continuing to install barrier-free facilities, including elevators and escalators.

2. Non-Railway Operations

The JR-West Group carries out non-railway operations, principally Sales of Goods and Food Services, Real Estate, and Other Businesses (including hotel business). Non-railway operations are affected by conditions in the Japanese economy, particularly economic trends in the Group's main area of operations, West Japan. Therefore, economic conditions in the future may have an effect on the Group's financial condition and results of operations.

In addition, its non-railway operations are faced with an increasingly severe competitive environment: in Sales of Goods and Food Services, due to the opening of retail stores by competitors in areas surrounding its shops; in Real Estate, due to the entry of new competitors and the upgrade of competitors' commercial facilities in surrounding areas; and in Other Businesses, due to increased competition with existing and new competitors in hotel operations, such as the openings of foreign-affiliated luxury hotels or low-end budget hotels by Japanese companies. These factors may have an effect on the Group's revenues.

However, as the Group develops its operations in the stations and areas surrounding them, it can be considered to possess competitive advantages in terms of advantageous locations. The Group coordinates its non-railway operations with its railway operations, and at the same time cooperates with local authorities to develop areas in and around stations and to revitalize commercial areas under elevated railway tracks.

The Group has been implementing measures to increase the value of its railway belts by making more effective use of its assets through such means as the active utilization of the benefits created by the Osaka Station Development Project. In addition, it has been taking positive steps to enhance customer convenience, including expanding affiliated stores for ICOCA electronic money and increasing business tie-ups with other companies.

7 Relating to Long-term Debt and Payables

On its establishment in 1987 and based on the Japanese National Railways Reform Law (1986, Law No. 87), the Company inherited ¥1,015.8 billion of long-term debt from JNR. Further, on October 1, 1991, based on the Law Relating to the Transfer of Shinkansen Line Railway Facilities (1991, Law No. 45), the Company purchased the Sanyo Shinkansen Line railway facilities (excluding rolling stock) at the cost of ¥974.1 billion from the Shinkansen Holding Corporation. Through contracts with the Shinkansen Holding Corporation, of the transfer value, ¥859.1 billion is to be paid over 25.5 years and ¥114.9 billion over 60 years by half-yearly installment payments of equal amounts of principal and interest to the Railway Development Fund (presently, the Japan Railway Construction, Transport and Technology Agency) and the unpaid balance was to be recorded as long-term payables to the acquisition of railway properties.

While investing in safety and carrying out all other necessary investment, the JR-West Group is aiming to increase management stability by reducing its long-term debt (corporate bonds, long-term debt, and long-term payables to the acquisition of railway properties) and thereby decreasing its interest payments.

In fiscal 2011, owing to such factors as the steady progression of the Osaka Station Development Project, capital expenditures increased. As a result, consolidated long-term debt has entered a temporary upward phase. Consolidated long-term debt at March 31, 2011, stood at ¥1,102.6 billion (including the current portion thereof), an increase of 6.1% compared with the previous fiscal year-end. Interest payments for the years ended March 31, 2009, 2010, and 2011, were ¥34.5 billion, ¥34.3 billion, and ¥33.7 billion, respectively, thereby maintaining a constant level.

The Group will continue to pay close attention to its levels of long-term debt, payables, and interest payments in order to maintain management stability. However, a reduction in free cash flow due to unforeseen circumstances could affect the JR-West Group's financial condition and results of operations.

8 Relating to Major Projects

1. Osaka Higashi Line

a. Details and Current Status

- April 1981
  Approval from Transport Minister based on the Japanese National Railways Law
- April 1987
  Establishment of West Japan Railway Company, which inherited the above-described approval
- May 1996
  In the government budget for fiscal 1997, the project was approved to receive funding identified in "Supplementary Funding for Operational Expenses for the Revitalization of Arterial Railroads"
- November 1996
  Establishment of quasi-public company Osaka Soto-Kanjo Railway Co., Ltd.
- December 1996
  West Japan Railway Company acquired a license for second-type railway operations and Osaka Soto-Kanjo Railway Co., Ltd. for third-type railway operations
- February 1999
  Approval to carry out construction (Miyakojima–Kyuhoji)
- December 2002
  Approval to carry out construction (Shin-Osaka–Miyakojima)
- February 2005
  Approval to extend the deadline to complete construction (Shin-Osaka–Kyuhoji)
- August 2007
  Resolution on the names of the line and stations
  (5 stations to be opened in the spring of 2008)
- March 2008
  Start of operations between Hanaten–Kyuhoji
- September 2009
  Approval to extend the deadline to complete construction (Shin-Osaka–Hanaten)

b. Outline of the Plan

(a) Main construction contractor: Osaka Soto-Kanjo Railway Co., Ltd. (third-type railway operator)
(b) Main operator: West Japan Railway Company (second-type railway operator)
(c) Planned line: Between Shin-Osaka Station, Tokaido Main Line and Kyuhoji Station, Kansai Main Line
Length: 20.3 km
(d) No. of stations: 13 (including Shin-Osaka and Kyuhoji Stations)
(e) Total construction cost: Approx. ¥120 billion
(f) Planned construction period: Fiscal 1998 to fiscal 2019
(Segment between Hanaten–Kyuhoji completed in fiscal 2008)

c. JR-West's Stance

This line is to reciprocally connect radial railway lines on the outskirts of Osaka by utilizing the Katamachi Line between Hanaten–Yao and Shigino–Suita (commonly known as the Joto freight line), which is currently used as a freight line. The line is expected to contribute to the development of the Kinki region. In addition to contributing to the development of the areas adjacent to the railway line, it will also assist with the redevelopment of the areas to the east of Osaka—such as the Awaji District and the Hanaten/Ryuge District—and in the creation of a multiple-type railway network designed to withstand natural disasters. However, if the plan does not progress as forecast due to various changes in the operating environment or the anticipated benefits may not be obtained, this may have an effect on the Company's financial condition and results of operations.

2. The Osaka Station Development Project

a. Plan Outline

(a) Station renovations
Project implementing body: West Japan Railway Company
Measures: A new station built over the railway tracks to be constructed in the center part of the existing station; renovation of the concourse inside the ticket gates; improved barrier-free facilities; a Dome to be newly constructed
(b) Development of passageways and the square
Project implementing body: West Japan Railway Company
Measures: Development of the passageways and the square within the building directly connecting to the square in front of the station; development of the passageways running north to south through the station and the rooftop plaza
(c) Development of the New North Building
Project implementing bodies: Osaka Terminal Building Company, West Japan Railway Company
Total floor area: Approx. 210,000m ^{2}; excluding planned car parking buildings
Uses: Department store, approx. 90,000m^2; specialty stores, approx. 40,000m^2; offices, etc., approx. 45,000m^2; cinema complex, approx. 10,000m^2; station facilities, etc.

(d) ACTY Osaka Building expansion

Project implementing bodies: Osaka Terminal Building Company, West Japan Railway Company

Total floor area: Approx. 35,000m^2

Uses: Department store, square, etc.

b. Schedule

- May 2004
  Construction of station renovations commenced
- October 2006
  Construction of the New North Building commenced
- May 2008
  Construction of the ACTY Osaka Building expansion commenced
- March 2011
  Start of operations of the ACTY Osaka Building expansion (ACTY was renamed the South Gate Building following the start of operations)
- April 2011
  Began full utilization of the stations built over the railway tracks
- May 2011
  Start of operations of the New North Building (North Gate Building) and Osaka Station City

c. Total Project Costs (for all Group companies)

Approx. ¥210 billion[1]

- Osaka Station renovations, New North Building development project: Approx. ¥190 billion
- ACTY Osaka Building expansion: Approx. ¥20 billion

d. JR-West's Stance

The objective of this project is to develop the Osaka Station to a level suitable for its position as the gateway to Osaka City; a pleasant, highly convenient, and lively terminal station. This project will contribute to each of the JR-West's railway operations, real estate business, and other businesses. However, if the project does not progress as forecast due to various changes in the operating environment, this may have an effect on the JR-West Group's financial condition and results of operations.

1 Revised based on various measures, including those to improve safety and for environmental protection

9 Relating to Computer Systems

Computer systems play a vital role in the JR-West Group's operations, and they are utilized not only in its railway operations and for sales of reserved seats, but also in many other areas throughout the Group's operations. Accordingly, if a problem should occur with these computer systems through a human error, a natural disaster, a power failure, a computer virus, or other reasons, it may have an impact on the Group's ability to carry out operations in the area where the problem occurred.

Further, if personal or other information should leak outside of the Group because of a computer virus infection or an erroneous operation of computer systems, it may cause stakeholders to lose trust in the Group, which in turn may have an effect on the Group's financial condition and results of operations.

The Group constantly strives to prevent computer system-related problems or accidents from occurring through regular system inspections, measures to improve system functionality, and employee training. It has also been working to minimize the impact on operations should a problem or accident occur, including the development of a rapid first motion system.

10 Relating to Natural Disasters

It is possible that the JR-West Group's operations or transportation network infrastructure will suffer considerable damage due to a natural disaster, such as an earthquake, typhoon, landslide, or flood; or due to a terrorist attack. For example, the Hanshin-Awaji (Kobe) Earthquake that occurred in January 1995 caused substantial damage to the railway network, particularly to the Sanyo Shinkansen Line and Tokaido Main Line.

Based on the impacts of such disasters as the Great East Japan Earthquake, which occurred in March 2011, the Company aims to minimize damage in the event a natural disaster or any other event should occur in the future. To this end, the Company has reevaluated its earthquake precautionary measures, including the earthquake early detection and warning systems installed on its Sanyo Shinkansen Line and the earthquake emergency news flash systems installed on its Sanyo Shinkansen Line as well as its conventional and other lines. It is also continuing the steady implementation of precautionary measures that have proven effects in limiting the spread of earthquake damage, such as the reinforcement of the earthquake resistance of the pillars used to support elevated tracks. Moreover, it has developed facilities and equipment that will minimize the damage that might occur should an earthquake vibration cause a running train to derail under the direction of the Shinkansen Derailment Countermeasures Committee, a committee created in consideration of the Shinkansen derailment following the October 2004 Mid Niigata Prefecture Earthquake that develops precaution measures and technologies to limit the effects of earthquakes on Shinkansen lines. It is also reevaluating its tsunami precautionary measures, and developing other measures to prevent, to the greatest possible extent, serious damages to the Group's operations from sources such as heavy rainfall and landslides.

As another one of its measures in response to natural disasters and other events, the Company has established a commitment line with financial institutions that enables it to raise capital according to predetermined conditions even if an earthquake should occur. Moreover, it has also acquired damage insurance inclusive of earthquake insurance for its main railway facilities. However, these countermeasures may be unable to entirely compensate for all the damage incurred due to an earthquake or other natural disaster.

Further, in addition to such direct damages caused by natural disasters as those mentioned above, there is the possibility that a major natural disaster could cause electricity shortages or other such issues, which may subsequently affect the Group's railway and other operations.

11 Relating to an Infectious Disease Outbreak and Epidemic

If a long-term infectious disease epidemic such as Severe Acute Respiratory Syndrome (SARS) that broke out in 2003 or swine influenza should occur in West Japan, it is feared that this would limit economic activities and cause passengers to refrain from taking trips, or even result in trains being unable to run. There is a danger that such an epidemic may temporarily cause the JR-West Group to be unable to continue its operations, particularly its railway operations. Such a situation may have an impact on the Group's results of operations.

While closely collaborating with government organizations and local governments, the Company is investigating ways of continuing operations should an outbreak of an infectious disease occur.

12 Relating to Compliance

The Company, in conducting its business activities, is subject to the Corporation Law, the Financial Instruments and Exchange Law, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Act on the Protection of Personal Information, and other generally applicable laws and ordinances, as well as the Railway Business Law and other laws and ordinances applicable to the relevant business category and the supervision of the relevant regulatory authorities according to the types of business. If the Company contravenes such statutory regulations or is subject to investigations by such regulatory authorities or in some situations, to any sanction, the public's trust of the JR-West Group may be undermined and, moreover, costs may be incurred to take measures to address the situation. Such a situation may have an impact on the Group's results of operations.

On September 28, 2009, with regard to a grave issue concerning compliance that had come up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, the Company was ordered by the MLIT to conduct fact-finding inquiries, implement remediation measures, including preventive measures based on the results of such inquiries, and make a report thereof.

On November 18, 2009, the Company submitted to the MLIT the results of the fact-finding inquiries and remediation measures, including preventive measures, obtained from both the Special Committee on Compliance, a body comprised of third-party experts, and its own internal team reporting to the President. The Company has also implemented measures to prevent a recurrence of similar problems and strengthen its compliance system. Specifically, the Company has established the Corporate Ethics & Risk Management Department to integrate its functions to promote compliance and the Corporate Ethics Committee as an advisory body to the Board of Directors. The Company has also established the Ethics Office and the Public Interest Information Office to offer advice and act as contact points regarding compliance issues. In addition, a third-party consultation office has been newly established for the use of JR-West Group officers and employees who wish to discuss compliance-related matters. The Company is also taking active steps to improve corporate ethics education for employees. On December 9, 2010, the Company submitted a report to MLIT detailing the status of implementation of these and other remediation measures.

13 Relating to the Fukuchiyama Line Train Accident

On April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations in which 106 passengers lost their lives and more than 500 were injured. The trial to determine the criminal liability for professional negligence resulting in the deaths and injuries in relation to that accident of Masao Yamazaki, former President and Representative Director, began on December 21, 2010, at the Kobe District Court and is currently underway. In addition, pursuant to the ruling of the Kobe No. 1 Committee for the Inquest of Prosecution, on April 23, 2010, designated attorneys indicted three former Presidents and Representative Directors of the Company—Masataka Ide, Shojiro Nan-ya, and Takeshi Kakiuchi. The Company is continuing to sincerely listen to the opinions and requests of the victims of the accident and will strive to the utmost of its abilities to respond appropriately to this accident.

The Company will continue to make compensation payments and other payments relating to the accident. At the present point in time, it is difficult to make a rational estimate of what the total amount of these payments will be.

CONSOLIDATED BALANCE SHEETS

West Japan Railway Company and its consolidated subsidiaries
As of March 31, 2011, 2010 and 2009

	Millions of yen 2011	2010	2009	Millions of U.S. dollars (Note 1) 2011
ASSETS				
Current assets:				
Cash (Notes 3, 11 and 21)	¥ 79,742	¥ 51,314	¥ 41,414	$ 960
Notes and accounts receivable (Note 21):				
Unconsolidated subsidiaries and affiliates	1,204	2,103	1,974	14
Trade	92,711	80,846	83,753	1,117
Less allowance for doubtful accounts	(872)	(840)	(597)	(10)
Inventories (Note 5)	28,043	29,534	24,143	337
Income taxes refundable (Note 13)	199	641	340	2
Deferred income taxes (Note 13)	18,961	17,857	19,743	228
Prepaid expenses and other current assets	42,442	41,794	37,771	511
Total current assets	262,432	223,254	208,544	3,161
Investments:				
Unconsolidated subsidiaries and affiliates (Notes 6 and 21)	51,154	48,462	49,249	616
Other securities (Notes 4, 11 and 21)	9,252	10,865	11,244	111
Total investments	60,407	59,327	60,494	727
Property, plant and equipment, at cost (Notes 7, 8, 9, 11 and 12)**:**				
Land	655,872	658,809	657,643	7,902
Buildings and structures	2,888,854	2,832,430	2,777,425	34,805
Machinery, equipment and vehicles	1,249,699	1,170,282	1,126,245	15,056
Tools, furniture and fixtures	119,251	112,297	105,539	1,436
Construction in progress	139,615	107,533	75,811	1,682
	5,053,294	4,881,352	4,742,665	60,883
Less accumulated depreciation	(2,902,676)	(2,809,076)	(2,721,154)	(34,972)
Property, plant and equipment, net	2,150,617	2,072,276	2,021,511	25,911
Deferred income taxes (Note 13)	142,069	139,030	125,527	1,711
Other assets	56,896	52,496	45,811	685
Total assets (Note 23)	¥ 2,672,423	¥ 2,546,384	¥ 2,461,889	$ 32,197

See accompanying notes to consolidated financial statements.

	Millions of yen			Millions of U.S. dollars (Note 1)
	2011	2010	2009	2011
LIABILITIES AND NET ASSETS				
Current liabilities:				
Short-term loans (Notes 10 and 21)	¥ 17,515	¥ 12,932	¥ 28,807	$ 211
Current portion of long-term debt (Notes 10, 11 and 21)	45,894	34,454	63,473	552
Current portion of long-term payables (Notes 12 and 21)	39,132	30,051	33,503	471
Notes and accounts payable (Note 21):				
Unconsolidated subsidiaries and affiliates	10,228	5,678	2,630	123
Trade	175,454	144,359	146,492	2,113
Prepaid railway fares received	31,183	31,450	31,510	375
Deposits and advances received (Note 21)	80,258	87,211	101,149	966
Accrued expenses (Note 21)	62,131	60,105	60,224	748
Accrued income taxes (Notes 13 and 21)	13,467	11,877	24,709	162
Allowance for customer point programs	660	580	563	7
Other current liabilities	11,910	9,500	16,299	143
Total current liabilities	487,837	428,201	509,365	5,877
Long-term debt (Notes 10, 11 and 21)	735,472	652,160	500,698	8,861
Long-term payables (Notes 12 and 21)	290,599	329,696	359,713	3,501
Accrued retirement benefits (Note 15)	322,737	324,801	292,774	3,888
Allowance for environmental safety measures	7,033	9,039	10,193	84
Allowance for unutilized gift tickets	2,670	2,715	2,808	32
Deferred income taxes (Note 13)	241	213	176	2
Other long-term liabilities	104,579	97,413	96,555	1,259
Total long-term liabilities	1,463,334	1,416,040	1,262,920	17,630
Contingent liabilities (Note 16)				
Net assets:				
Shareholders' equity (Note 17):				
Common stock (Note 24(1)):				
Authorized – 8,000,000 shares				
Issued and outstanding – 2,000,000 shares	100,000	100,000	100,000	1,204
Capital surplus	55,000	55,000	55,000	662
Retained earnings (Note 24(2))	563,766	543,323	531,236	6,792
Less treasury stock, at cost	(30,343)	(30,343)	(30,343)	(365)
Total shareholders' equity	688,423	667,980	655,893	8,294
Accumulated other comprehensive income:				
Net unrealized holding gain on securities (Note 4)	546	1,292	1,004	6
Net unrealized deferred loss on hedging instruments	(161)	(108)	(233)	(1)
Total accumulated other comprehensive income	384	1,183	770	4
Minority interests	32,443	32,977	32,938	390
Total net assets	721,251	702,141	689,602	8,689
Total liabilities and net assets	¥2,672,423	¥2,546,384	¥2,461,889	$32,197

CONSOLIDATED STATEMENTS OF INCOME

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Millions of U.S. dollars (Note 1)
	2011	2010	2009	2011
Operating revenues (Note 23)	**¥1,213,506**	¥1,190,135	¥1,275,308	**$14,620**
Operating expenses:				
Transportation, other services and cost of sales	**950,419**	915,865	944,505	**11,450**
Selling, general and administrative expenses (Note 18)	**167,097**	197,739	208,283	**2,013**
	1,117,517	1,113,605	1,152,789	**13,464**
Operating income (Note 23)	**95,988**	76,530	122,519	**1,156**
Other income (expenses):				
Interest and dividend income	**477**	632	588	**5**
Interest expense	**(33,786)**	(34,309)	(34,592)	**(407)**
Equity in earnings of affiliates	**2,421**	807	986	**29**
Loss on impairment of fixed assets (Notes 8 and 23)	**(3,790)**	(3,266)	(51)	**(45)**
Other, net	**(289)**	3,298	5,200	**(3)**
	(34,967)	(32,836)	(27,868)	**(421)**
Income before income taxes and minority interests	**61,021**	43,693	94,651	**735**
Income taxes (Note 13)**:**				
Current	**29,952**	31,047	52,432	**360**
Deferred	**(3,587)**	(11,820)	(13,621)	**(43)**
	26,364	19,226	38,810	**317**
Income before minority interests	**34,656**	24,466	55,841	**417**
Minority interests	**326**	391	(1,311)	**3**
Net income	**¥ 34,983**	¥ 24,858	¥ 54,529	**$ 421**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

West Japan Railway Company and its consolidated subsidiaries
Year ended March 31, 2011

	Millions of yen	Millions of U.S. dollars (Note 1)
	2011	2011
Income before minority interests	**¥34,656**	**$417**
Other comprehensive income:		
Net unrealized holding loss on securities	**(690)**	**(8)**
Net unrealized deferred loss on hedging instruments	**(66)**	**(0)**
The Company's share of other comprehensive income of affiliates accounted for by the equity method	**(50)**	**(0)**
Total other comprehensive loss	**(807)**	**(9)**
Total comprehensive income	**¥33,849**	**$407**

Comprehensive income (loss) attributable the shareholders of the Company and minority shareholders of consolidated subsidiaries for the year ended March 31, 2011 was as follows:

	Millions of yen	Millions of U.S. dollars (Note 1)
	2011	2011
Comprehensive income attributable to shareholders of the Company	**¥34,184**	**$411**
Comprehensive loss attributable to minority shareholders of consolidated subsidiaries	**(334)**	**(4)**
Total comprehensive income	**¥33,849**	**$407**

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, 2011, 2010 and 2009

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred loss on hedging instruments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2008	¥ 100,000	¥ 55,000	¥ 489,366	¥ (10,343)	¥ 634,022	¥ 4,552	¥ 95	¥ 4,647	¥ 32,167	¥ 670,838
Net income for the year	—	—	54,529	—	54,529	—	—	—	—	54,529
Cash dividends	—	—	(12,816)	—	(12,816)	—	—	—	—	(12,816)
Purchases of treasury stock	—	—	—	(19,999)	(19,999)	—	—	—	—	(19,999)
Decrease in retained earnings resulting from the addition of an affiliate under the equity method	—	—	(193)	—	(193)	—	—	—	—	(193)
Increase in retained earnings resulting from merger of an unconsolidated subsidiary	—	—	351	—	351	—	—	—	—	351
Net changes in items other than shareholders' equity	—	—	—	—	—	(3,548)	(328)	(3,876)	770	(3,106)
Balance at March 31, 2009	¥ 100,000	¥ 55,000	¥ 531,236	¥ (30,343)	¥ 655,893	¥ 1,004	¥ (233)	¥ 770	¥ 32,938	¥ 689,602
Net income for the year	—	—	24,858	—	24,858	—	—	—	—	24,858
Cash dividends	—	—	(13,561)	—	(13,561)	—	—	—	—	(13,561)
Increase in retained earnings resulting from merger of unconsolidated subsidiaries	—	—	337	—	337	—	—	—	—	337
Increase in retained earnings resulting from change in numbers of consolidated subsidiaries	—	—	452	—	452	—	—	—	—	452
Net changes in items other than shareholders' equity	—	—	—	—	—	288	124	412	39	451
Balance at March 31, 2010	¥ 100,000	¥ 55,000	¥ 543,323	¥ (30,343)	¥ 667,980	¥ 1,292	¥ (108)	¥ 1,183	¥ 32,977	¥ 702,141
Net income for the year	**—**	**—**	**34,983**	**—**	**34,983**	**—**	**—**	**—**	**—**	**34,983**
Cash dividends	**—**	**—**	**(14,530)**	**—**	**(14,530)**	**—**	**—**	**—**	**—**	**(14,530)**
Decrease in retained earnings resulting from change in numbers of consolidated subsidiaries	**—**	**—**	**(10)**	**—**	**(10)**	**—**	**—**	**—**	**—**	**(10)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(746)**	**(52)**	**(799)**	**(534)**	**(1,333)**
Balance at March 31, 2011	**¥100,000**	**¥55,000**	**¥563,766**	**¥(30,343)**	**¥688,423**	**¥ 546**	**¥(161)**	**¥ 384**	**¥32,443**	**¥721,251**

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 unrealized deferred loss on hedging instruments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2010	$1,204	$662	$6,546	$(365)	$8,047	$15	$(1)	$14	$397	$8,459
Net income for the year	**—**	**—**	**421**	**—**	**421**	**—**	**—**	**—**	**—**	**421**
Cash dividends	**—**	**—**	**(175)**	**—**	**(175)**	**—**	**—**	**—**	**—**	**(175)**
Decrease in retained earnings resulting from change in numbers of consolidated subsidiaries	**—**	**—**	**(0)**	**—**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(8)**	**(0)**	**(9)**	**(6)**	**(16)**
Balance at March 31, 2011	**$1,204**	**$662**	**$6,792**	**$(365)**	**$8,294**	**$ 6**	**$(1)**	**$ 4**	**$390**	**$8,689**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Millions of U.S. dollars (Note 1)
	2011	2010	2009	2011
Cash flows from operating activities				
Income before income taxes and minority interests	**¥ 61,021**	¥ 43,693	¥ 94,651	**$ 735**
Adjustments for:				
Depreciation and amortization	**150,886**	141,903	137,009	**1,817**
Loss on impairment of fixed assets	**3,790**	3,266	51	**45**
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	**38,530**	35,200	53,338	**464**
Loss on disposal of property, plant and equipment	**8,878**	8,873	7,394	**106**
(Decrease) increase in allowance for doubtful accounts	**(29)**	140	520	**(0)**
(Decrease) increase in accrued retirement benefits	**(2,063)**	31,959	35,729	**(24)**
Increase (decrease) in accrued bonuses	**1,141**	(1,259)	(595)	**13**
Decrease in other accruals	**(1,728)**	(1,302)	(3,419)	**(20)**
Interest and dividend income	**(477)**	(632)	(588)	**(5)**
Interest expense	**33,786**	34,309	34,592	**407**
Equity in earnings of affiliates	**(2,421)**	(807)	(986)	**(29)**
Gain on contributions received for construction	**(39,737)**	(35,961)	(54,935)	**(478)**
(Increase) decrease in notes and accounts receivable	**(10,945)**	4,623	8,095	**(131)**
Decrease (increase) in inventories	**1,491**	(5,339)	(1,826)	**17**
Increase (decrease) in notes and accounts payable	**28,247**	(15,242)	(33,736)	**340**
Increase (decrease) in accrued consumption taxes	**2,029**	(4,466)	2,611	**24**
Other	**12,007**	400	(1,568)	**144**
Subtotal	**284,406**	239,359	276,338	**3,426**
Interest and dividend income received	**473**	619	648	**5**
Interest paid	**(33,875)**	(34,409)	(34,827)	**(408)**
Income taxes paid	**(27,783)**	(44,260)	(63,318)	**(334)**
Net cash provided by operating activities	**223,221**	161,309	178,840	**2,689**
Cash flows from investing activities				
Purchases of marketable securities	**(30,000)**	—	—	**(361)**
Proceeds from sales of marketable securities	**30,000**	—	—	**361**
Payments for time deposits with a maturity in excess of three months	**(230)**	(35,230)	(230)	**(2)**
Proceeds from time deposits with a maturity in excess of three months	**230**	35,230	230	**2**
Purchases of property, plant and equipment	**(277,342)**	(246,183)	(201,716)	**(3,341)**
Proceeds from sales of property, plant and equipment	**659**	1,791	2,481	**7**
Contributions received for construction	**34,370**	37,855	40,928	**414**
Increase in investments in securities	**(566)**	(812)	(12,023)	**(6)**
Proceeds from sales of investments in securities	**120**	800	18	**1**
Increase in long-term loans receivable	**(679)**	(584)	(828)	**(8)**
Collection of long-term loans receivable	**760**	562	681	**9**
Other	**(3,616)**	(2,210)	(2,192)	**(43)**
Net cash used in investing activities	**(246,293)**	(208,782)	(172,651)	**(2,967)**
Cash flows from financing activities				
Increase (decrease) in short-term loans	**1,897**	(16,493)	14,447	**22**
Proceeds from long-term loans	**67,100**	66,900	63,606	**808**
Repayment of long-term loans	**(33,460)**	(42,770)	(43,060)	**(403)**
Proceeds from issuance of bonds	**60,000**	115,000	55,000	**722**
Redemption of bonds	**—**	(20,000)	(45,000)	**—**
Repayment of long-term payables	**(29,984)**	(33,437)	(34,539)	**(361)**
Purchases of treasury stock	**—**	—	(19,999)	**—**
Cash dividends paid to the Company's shareholders	**(14,517)**	(13,552)	(12,825)	**(174)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(117)**	(117)	(126)	**(1)**
Other	**528**	(907)	12,311	**6**
Net cash provided by (used in) financing activities	**51,445**	54,621	(10,185)	**619**
Net increase (decrease) in cash and cash equivalents	**28,373**	7,148	(3,996)	**341**
Cash and cash equivalents at beginning of year	**51,084**	41,184	44,606	**615**
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	**54**	2,690	—	**0**
Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries	**—**	61	574	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 79,512**	¥ 51,084	¥ 41,184	**$ 957**

See accompanying notes to consolidated financial statements.

01 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 its 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 Financial Instruments and Exchange Act 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 ¥83=U.S.$1.00, the exchange rate prevailing on March 31, 2011. 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 consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Summary of Significant Accounting Policies

(1) Principles of consolidation

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

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

All assets and liabilities of the subsidiaries are revalued on acquisition, if applicable. Goodwill is amortized over a period of five years on a straight-line basis. Negative goodwill arising from transactions that occurred on or before March 31, 2010 is amortized over a period of five years on a straight-line basis. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is charged to income when incurred.

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 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 lower of cost or net selling value, cost being 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 (excluding leased assets)

Property, plant and equipment are stated at cost (see Note 7). 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) Intangible assets

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

(8) 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 five years.

(9) Leases

The Company and its consolidated subsidiaries have 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.

(10) 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.

(11) Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.

(12) Allowance for customer point programs

Allowance for customer point programs is provided, at a reasonably estimated amount, for expected expenditures corresponding to points granted to customers, which are expected to be utilized in following periods.

(13) 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 ¥12,266 million is being amortized principally over a period of fifteen years.

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 period of ten years, which is shorter than the average remaining years of service of the eligible employees.

Prior service cost is principally charged to income when incurred.

(14) Allowance for environmental safety measures

To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company, an allowance at an amount reasonably estimated has been provided.

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.

(15) Allowance for unutilized gift tickets

Unutilized gift tickets issued by certain consolidated subsidiaries are credited to income after a fixed period has passed from their respective dates of issuance. Certain consolidated subsidiaries provide an allowance for unutilized gift tickets at a reasonably estimated amount of future utilization based on the historical utilization ratio.

(16) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

(17) Recognition of revenue derived from finance lease transactions as a lessor

Revenue from finance lease transactions and its related cost are recognized upon receipt of lease payments.

(18) 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 swap contracts 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 ("Special treatment").

02 Adoption of New Accounting Standards

(1) Presentation of comprehensive income

Effective the year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ") Statement No.25 issued on June 30, 2010) and the Company was required to present the consolidated statement of comprehensive income. In connection with the adoption of this accounting standard, the amounts of accumulated other comprehensive income and total accumulated other comprehensive income shown in the accompanying consolidated balance sheets as of March 31, 2010 and 2009 and consolidated statements of changes in net assets for the years then ended had previously been stated as valuation and translation adjustments and total of valuation and translation adjustments shown in the consolidated balance sheets as of March 31, 2010 and 2009 and consolidated statements of changes in net assets for the years then ended, respectively.

(2) Asset retirement obligations

Effective the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008).

The effect of this adoption on consolidated financial statements for the year ended March 31, 2011 was immaterial.

(3) Equity method of accounting for investments

Effective the year ended March 31, 2011, the Company adopted "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No.24 issued on March 10, 2008).

There was no impact on consolidated financial statements for the year ended March 31, 2011.

(4) Disclosures about segments of an enterprise and related information

Effective the year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 issued on March 21, 2008).

(5) Business combinations and other accounting standards

Effective the year ended March 31, 2011, the Company adopted "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23, issued on December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, revised on December 26, 2008), "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, revised on December 26, 2008) and "Guidance on Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, revised on December 26, 2008).

(6) Recognition of revenues and costs of construction contracts

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No.15) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18), both issued on December 27, 2007. Under these accounting standards, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

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

(7) Change in method for valuing securities

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Financial Instruments" (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 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 consolidated financial statements for the year ended March 31, 2010 was immaterial.

(8) Disclosures of financial instruments

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

(9) Partial amendments to accounting standard for retirement benefits (Part3)

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (ASBJ Statement No.19 issued on July 31, 2008).

The effect of this adoption on consolidated financial statements for the year ended March 31, 2010 was nil, because there was no actuarial gain or loss resulting from this adoption.

(10) Disclosures about fair value of investment and rental property

Effective the year ended March 31, 2010, the Company adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20 issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23 issued on November 28, 2008).

(11) Leases

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 revised 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 or its consolidated subsidiaries are 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 or its consolidated subsidiaries are accounted for in the same manner as operating leases.

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

(12) Related party transactions

Effective the year ended March 31, 2009, the Company adopted, "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006).

There were no items to be disclosed for the year ended March 31, 2009 as a result of the adoption of these standards.

03 Cash and Cash Equivalents

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2011, 2010 and 2009 are reconciled to the balances of cash and cash equivalents as presented in the accompanying consolidated statements of cash flows for the years then ended as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	**2011**
Cash	**¥79,742**	¥51,314	¥41,414	**$960**
Time deposits with original maturities in excess of three months included in cash	**(230)**	(230)	(230)	**(2)**
Cash and cash equivalents	**¥79,512**	¥51,084	¥41,184	**$957**

04 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, 2011, 2010 and 2009. 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, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen					
	2011			2010		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥2,726**	**¥3,931**	**¥1,204**	¥4,944	¥7,211	¥2,266
Debt securities:						
Government bonds	**37**	**37**	**0**	37	37	0
Corporate bonds	**43**	**45**	**1**	50	51	1
Subtotal	**2,807**	**4,014**	**1,206**	5,031	7,300	2,269
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**3,404**	**2,881**	**(522)**	1,665	1,242	(422)
Debt securities:						
Government bonds	**105**	**103**	**(2)**	—	—	—
Subtotal	**3,509**	**2,984**	**(524)**	1,665	1,242	(422)
Total	**¥6,317**	**¥6,998**	**¥ 681**	¥6,697	¥8,543	¥1,846

	Millions of yen		
	2009		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥4,117	¥6,417	¥2,300
Debt securities:			
Government bonds	32	33	0
Subtotal	4,150	6,450	2,300
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	3,318	2,396	(921)
Debt securities:			
Government bonds	—	—	—
Subtotal	3,318	2,396	(921)
Total	¥7,468	¥8,847	¥1,378

	Millions of U.S. dollars		
	2011		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$32**	**$47**	**$14**
Debt securities:			
Government bonds	**0**	**0**	**0**
Corporate bonds	**0**	**0**	**0**
Subtotal	**33**	**48**	**14**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**41**	**34**	**(6)**
Debt securities:			
Government bonds	**1**	**1**	**(0)**
Subtotal	**42**	**35**	**(6)**
Total	**$76**	**$84**	**$ 8**

The carrying value of investments in non-marketable securities at March 31, 2009 was as follows:

	Millions of yen
	2009
Unlisted equity securities	¥2,276
Other	120
	¥2,397

05 Inventories

Inventories at March 31, 2011, 2010 and 2009 consisted of the following:

		Millions of yen		Millions of U.S. dollars
	2011	2010	2009	2011
Merchandise and real estate for sale	**¥ 5,123**	¥ 5,133	¥ 5,774	**$ 61**
Contracts in process	**11,118**	12,106	7,367	**133**
Rails, materials and supplies	**11,801**	12,295	11,001	**142**
	¥28,043	¥29,534	¥24,143	**$337**

06 Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2011, 2010 and 2009 consisted of the following:

		Millions of yen		Millions of U.S. dollars
	2011	2010	2009	2011
Investments in:				
Unconsolidated subsidiaries	**¥11,181**	¥11,040	¥12,818	**$134**
Affiliates	**39,973**	37,421	36,430	**481**
	¥51,154	¥48,462	¥49,249	**$616**

07 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 the acquisition costs of property, plant and equipment for the years ended March 31, 2011, 2010 and 2009 totaled ¥38,530 million ($464 million), ¥35,200 million and ¥53,338 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2011, 2010 and 2009 amounted to ¥637,643 million ($7,682 million), ¥603,841 million and ¥574,718 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, 2011, 2010 and 2009 totaled ¥4,805 million ($57 million), ¥6,124 million and ¥10,166 million, respectively.

08 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, 2011 and 2010, the Company wrote down the following fixed assets to their respective recoverable value and recorded a related loss on impairment of fixed assets totaling ¥3,790 million ($45 million) and ¥3,266 million, respectively, in the accompanying consolidated statements of income for the years then ended:

	Millions of yen		Millions of U.S. dollars
	2011	2010	**2011**
Assets to be disposed of:			
Buildings, land and other, held in Kobe City, Hyogo Prefecture	**¥3,149**	¥ —	**$ 37**
Building and other, held in Kurashiki City, Okayama Prefecture	**—**	2,367	**—**
Other assets:			
Building and other, held in Osaka City, Osaka Prefecture	**640**	—	**7**
Buildings, land and other, held in Kobe City, Hyogo Prefecture	**—**	898	**—**
Total	**¥3,790**	¥3,266	**$ 45**

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.

The recoverable value of other assets presented in the above table was measured at value in use and the Company determined their value in use at nil as a result of the estimation based on future cash flows for the year ended March 31, 2011.

The recoverable value of other assets presented in the above table was measured primarily at value in use, which is determined at future cash flows discounted at 5% for the year ended March 31, 2010.

09 Investment and Rental Properties

The Company and certain consolidated subsidiaries own office buildings for lease, commercial facilities including lands and rental housing, mainly in Osaka Prefecture and other areas.

Rental income, net of related expenses relevant to these real estate properties amounted to ¥25,290 million ($304 million) and ¥26,085 million for the years ended March 31, 2011 and 2010, respectively. The rental income is recorded under operating revenues or other income and the rental expenses are recorded under operating expenses or other expenses.

The carrying value in the consolidated balance sheets and corresponding fair value of those properties as of March 31, 2011 and 2010 are as follows:

			Millions of yen
			2011
		Carrying Value	Fair Value
As of March 31, 2010	Net change	As of March 31, 2011	As of March 31, 2011
¥114,979	**¥27,596**	**¥142,575**	**¥287,977**

			Millions of yen
			2010
		Carrying Value	Fair Value
As of March 31, 2009	Net change	As of March 31, 2010	As of March 31, 2010
¥104,218	¥10,760	¥114,979	¥225,333

		Millions of U.S. dollars	
			2011
		Carrying Value	Fair Value
As of March 31, 2010	Net change	As of March 31, 2011	As of March 31, 2011
$1,385	**$332**	**$1,717**	**$3,469**

Notes: 1 The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.
2 The components of net change in carrying value for the years ended March 31, 2011 and 2010 included increases mainly due to acquisitions of real estate properties in the amount of ¥32,216 million ($388 million) and ¥17,353 million and decreases mainly due to depreciation in the amount of ¥4,353 million ($52 million) and ¥5,052 million, respectively.
3 The fair value of main properties is estimated in accordance with appraisal standards for valuing real-estate. The fair value of the others is based on book value or a valuation amount that reasonably reflects market value.

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, 2011, 2010 and 2009 ranged from 0.23% to 0.79%, from 0.01% to 0.96%, and from 0.26% to 1.16%, respectively.

Long-term debt at March 31, 2011, 2010 and 2009 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	2011
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2017 through 2019	**¥110,000**	¥110,000	¥130,000	**$1,325**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.387% to 2.49%, due from 2013 through 2041	**334,970**	274,968	159,966	**4,035**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.00% to 6.00%, due in installments from 2012 through 2021	**66,618**	61,832	55,063	**802**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.4675% to 2.36%, due in installments from 2012 through 2031	**240,100**	209,700	190,772	**2,892**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2012 through 2019	**4,570**	5,180	5,810	**55**
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2013 through 2031	**8,475**	7,397	4,116	**102**
Other	**16,632**	17,536	18,442	**200**
	781,366	686,614	564,171	**9,414**
Less current portion	**(45,894)**	(34,454)	(63,473)	**(552)**
	¥735,472	¥652,160	¥500,698	**$8,861**

The aggregate annual maturities of long-term debt subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥ 45,894	$ 552
2013	103,197	1,243
2014	38,695	466
2015	46,400	559
2016	38,071	458
2017 and thereafter	509,106	6,133
	¥781,366	$9,414

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, 2011, 2010 and 2009 was as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	2011
Lines of credit	**¥100,000**	¥100,000	¥100,000	**$1,204**
Credit utilized	**—**	—	15,000	**—**
Available credit	**¥100,000**	¥100,000	¥ 85,000	**$1,204**

11 Pledged Assets

Assets pledged at March 31, 2011 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Bank deposits included in cash	¥ 230	$ 2
Investments in other securities	275	3
Land	190	2
Buildings and structures, net	17,868	215
	¥18,564	$223

The indebtedness secured by such collateral at March 31, 2011 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	¥ 610	$ 7
Long-term loans included in long-term debt	3,960	47
	¥4,570	$55

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, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	2011
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2012 through 2017	**¥135,658**	¥164,521	¥196,877	**$1,634**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2012 through 2052	**187,321**	187,860	188,365	**2,256**
Other	**6,751**	7,366	7,974	**81**
	329,732	359,748	393,217	**3,972**
Less current portion	**(39,132)**	(30,051)	(33,503)	**(471)**
	¥290,599	¥329,696	¥359,713	**$3,501**

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 ("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, 2011, 2010 and 2009 were 4.08%, 4.15% and 4.21%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥39,132	$ 471
2013	40,840	492
2014	39,717	478
2015	38,130	459
2016	33,686	405
2017 and thereafter	138,224	1,665
	¥329,732	$3,972

13 Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 40.69% for the years ended March 31, 2011, 2010 and 2009.

A reconciliation of the statutory tax rate and effective tax rates for the years ended March 31,2011 and 2010 as a percentage of income before income taxes and minority interests was as follows:

	2011	2010
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in income taxes resulting from:		
Reversal of valuation allowance	**1.55**	2.04
Per capita portion of inhabitants' taxes	**1.16**	1.64
Permanent non-deductible expenses	**0.74**	0.81
Other	**(0.94)**	(1.18)
Effective tax rates	**43.20%**	44.00%

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2009 has been omitted because the difference between these tax rates was less than five percent of the statutory tax rate.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen 2011	2010	2009	Millions of U.S. dollars 2011
Deferred tax assets:				
Accrued bonuses included in accrued expenses	**¥ 14,101**	¥ 13,490	¥ 13,971	**$ 169**
Accrued enterprise taxes included in accrued income taxes	**1,636**	1,396	2,378	**19**
Accrued retirement benefits	**131,085**	131,952	118,930	**1,579**
Unrealized gain on property, plant and equipment	**7,951**	7,674	7,354	**95**
Tax loss carryforwards	**3,277**	1,570	229	**39**
Other	**29,248**	26,100	24,407	**352**
Gross deferred tax assets	**187,300**	182,186	167,271	**2,256**
Valuation allowance	**(8,299)**	(7,282)	(6,270)	**(99)**
Total deferred tax assets	**179,001**	174,903	161,000	**2,156**
Deferred tax liabilities:				
Unrealized holding gain on securities	**(278)**	(751)	(561)	**(3)**
Contributions received for construction deducted from acquisition costs of property, plant and equipment	**(14,410)**	(14,780)	(13,092)	**(173)**
Gain on valuation of assets of consolidated subsidiaries	**(1,443)**	(1,443)	(1,443)	**(17)**
Other	**(2,079)**	(1,253)	(807)	**(25)**
Total deferred tax liabilities	**(18,212)**	(18,229)	(15,905)	**(219)**
Deferred tax assets, net	**¥160,789**	¥156,674	¥145,095	**$1,937**

14 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 or its consolidated subsidiaries are accounted for in the same manner as operating leases.

Due to the adoption of the new accounting standards including the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 revised on March 30, 2007), real estate lease transactions were included in the following tables at March 31, 2009. As a result, the amounts increased significantly compared with those at March 31, 2008.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization and net book value of the leased assets as of March 31, 2011, 2010 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions entered into by the Company and its consolidated subsidiaries as lessees, which are currently accounted for as operating leases:

Millions of yen

	2011				2010			
	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value
Leased assets:								
Buildings and structures	**¥2,403**	**¥ 353**	**¥ —**	**¥2,050**	¥2,403	¥ 266	¥ —	¥2,137
Machinery, equipment and vehicles	**539**	**283**	**113**	**143**	673	341	113	219
Tools, furniture and fixtures	**1,339**	**1,002**	**–**	**337**	1,806	1,032	—	773
Software included in other assets	**63**	**52**	**–**	**10**	118	104	—	13
	¥4,347	**¥1,691**	**¥113**	**¥2,542**	¥5,002	¥1,744	¥113	¥3,144

Millions of yen

	2009			
	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value
Leased assets:				
Buildings and structures	¥2,403	¥ 179	¥—	¥2,224
Machinery, equipment and vehicles	797	340	—	457
Tools, furniture and fixtures	2,088	1,028	—	1,059
Software included in other assets	141	115	—	25
	¥5,431	¥1,664	¥—	¥3,767

	Millions of U.S. dollars			
	2011			
	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value
Leased assets:				
Buildings and structures	$28	$ 4	$—	$24
Machinery, equipment and vehicles	6	3	1	1
Tools, furniture and fixtures	16	12	—	4
Software included in other assets	0	0	—	0
	$52	$20	$ 1	$30

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2011, 2010 and 2009 totaled ¥433 million ($5 million), ¥557 million and ¥646 million, respectively. These amounts are equal to the depreciation/amortization expense of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value. Accumulated impairment losses on the leased assets as of March 31, 2011, 2010 and 2009 are ¥113 million ($1 million), ¥113 million and nil, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥ 386	$ 4
2013 and thereafter	2,269	27
	¥2,656	$32

Future minimum lease payments subsequent to March 31, 2011 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥ 1,087	$ 13
2013 and thereafter	15,555	187
	¥16,642	$200

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2011, 2010 and 2009 for finance lease transactions in which certain consolidated subsidiaries of the Company are the lessors and which are currently accounted for as operating leases:

	Millions of yen					
	2011			2010		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	¥2,455	¥1,132	¥1,322	¥3,308	¥1,330	¥1,978
Tools, furniture and fixtures	1,992	1,444	548	2,766	1,807	959
	¥4,447	¥2,577	¥1,870	¥6,075	¥3,137	¥2,937

	Millions of yen		
	2009		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	¥3,443	¥1,061	¥2,382
Tools, furniture and fixtures	3,744	2,098	1,646
	¥7,188	¥3,160	¥4,028

	Millions of U.S. dollars		
	2011		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	$29	$13	$15
Tools, furniture and fixtures	24	17	6
	$53	$31	$22

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2011, 2010 and 2009 were ¥648 million ($7 million), ¥950 million and ¥1,327 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2011, 2010 and 2009 computed by the straight-line method over the respective lease terms amounted to ¥577 million ($6 million), ¥870 million and ¥1,229 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2011 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥ 548	$ 6
2013 and thereafter	1,513	18
	¥2,061	$24

Future minimum lease receipts subsequent to March 31, 2011 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2012	¥ 402	$ 4
2013 and thereafter	3,547	42
	¥3,949	$47

15 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 accompanying consolidated balance sheets at March 31, 2011, 2010 and 2009 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	**2011**
Retirement benefit obligation	**¥(361,924)**	¥(365,596)	¥(373,335)	**$(4,360)**
Plan assets at fair value	**8,999**	9,313	8,879	**108**
Unfunded retirement benefit obligation	**(352,925)**	(356,282)	(364,455)	**(4,252)**
Unrecognized net retirement benefit obligation at transition	**4,088**	4,906	36,365	**49**
Unrecognized actuarial loss	**28,021**	28,635	37,536	**337**
Unrecognized prior service cost	**(1,308)**	(1,541)	(1,772)	**(15)**
Net retirement benefit obligation	**(322,122)**	(324,281)	(292,326)	**(3,880)**
Prepaid pension cost	**614**	519	448	**7**
Accrued retirement benefits	**¥(322,737)**	¥(324,801)	¥(292,774)	**$(3,888)**

The components of retirement benefit expenses for the years ended March 31, 2011, 2010 and 2009 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2011	2010	2009	**2011**
Service cost	**¥14,828**	¥15,189	¥15,315	**$178**
Interest cost	**7,210**	7,391	7,459	**86**
Expected return on plan assets	**(182)**	(174)	(234)	**(2)**
Amortization of net retirement benefit obligation at transition	**817**	31,462	31,458	**9**
Amortization of actuarial loss	**7,328**	7,530	7,573	**88**
Amortization of prior service cost	**463**	82	(231)	**5**
Expense recorded at certain consolidated subsidiaries on change in measurement of retirement benefit obligation from the simplified method to the principle method	**100**	740	—	**1**
	¥30,566	¥62,220	¥61,341	**$368**

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

	2011	2010	2009
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%

16 Contingent Liabilities

At March 31, 2011, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans, accounts payable – trade and other obligations of companies other than consolidated subsidiaries in the aggregate amount of ¥8,439 million ($101 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.

17 Shareholders' Equity

The Corporation Law of Japan 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 ($136 million) at March 31, 2011, 2010 and 2009.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2011, 2010 and 2009 are summarized as follows:

Number of shares

	March 31, 2010	Increase	Decrease	March 31, 2011
Common stock	2,000,000	—	—	**2,000,000**
Treasury stock	63,584	—	—	**63,584**

Number of shares

	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock	2,000,000	—	—	2,000,000
Treasury stock	63,584	—	—	63,584

Number of shares

	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock	2,000,000	—	—	2,000,000
Treasury stock	18,365	45,219	—	63,584

18 Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,339 million ($76 million), ¥6,480 million and ¥7,349 million for the years ended March 31, 2011, 2010 and 2009, respectively.

19 Other Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen 2010
Net unrealized holding gain on securities	¥277
Net unrealized deferred gain on hedging instruments	156
The Company's share of other comprehensive income of affiliates accounted for by the equity method	5
	¥439

Comprehensive income (loss) attributable to shareholders of the Company and minority shareholders of consolidated subsidiaries for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Comprehensive income attributable to shareholders of the Company	¥25,271
Comprehensive loss attributable to minority shareholders of consolidated subsidiaries	(365)
Total comprehensive income	¥24,906

20 Amounts per Share

Amounts per share at March 31, 2011, 2010 and 2009 and for the years then ended were as follows:

	Yen			U.S. dollars
	2011	2010	2009	**2011**
Net assets	**¥355,712.84**	¥345,568.31	¥339,113.24	**$4,285**
Net income	**18,066.01**	12,837.31	27,729.03	**217**
Cash dividends	**8,000.00**	7,000.00	7,000.00	**96**

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, 2011, 2010 and 2009 since the Company had no potentially dilutive stock at March 31, 2011, 2010 and 2009.

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.

21 Financial Instruments

Overview

(1) Policy for financial instruments

The Company and its consolidated subsidiaries (collectively, the "Group") raise funds mainly through bonds and bank borrowings mainly for the purpose of settlement of existing payables and capital investment. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term working capital mainly through short-term bonds. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. Investments in securities are exposed to market risk. Those securities are mainly composed of the shares of common stock of other companies with which the Group has business relationships.

Substantially all trade payables—trade notes and accounts payable and deposits and advances received—have payment due dates within one year. The Group is also exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies. However, regarding trade payables denominated in foreign currencies arising from organized foreign tours, forward foreign exchange contracts are principally arranged to reduce the risk. Bonds and bank borrowings are taken out principally for the purpose of settlement of existing payables and capital investments. The redemption dates of these long-term debts extend up to twenty-nine years from March 31, 2011. Some of them have variable interest rates and are exposed to interest rate fluctuation risk. Long-term payables are mainly derived from the purchase of Sanyo Shinkansen's facilities. These payables are settled by installments once every six months. The repayment dates of these payables extend up to forty years from March 31, 2011. Some of these payables have variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into interest-rate swap contracts to reduce the risk arising from the fluctuation in interest rates on bank borrowings and forward foreign exchange contracts to reduce the foreign currency exchange risk arising from trade payables denominated in foreign currencies.

Information regarding the method of hedge accounting is found in Note 1(18).

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from trade receivables, the Group monitors due dates and outstanding balances by individual customer.
The Group is also making efforts to identify and mitigate risks arising from bad debts from customers who are having financial difficulties.

The Group enters into derivative transactions only with financial institutions which have a sound credit profile to mitigate counterparty risk. At the balance sheet date, the carrying values of the financial assets in the consolidated balance sheets represent the maximum credit risk exposures of the Group.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates, interest rates and others)

The Company utilizes interest-rate swap contracts to reduce the risk arising from the fluctuation in interest rates on bank borrowings. Finance division of the Company executes and monitors them in accordance with internal policy.

For trade payables denominated in foreign currencies, certain consolidated subsidiaries identify the foreign currency exchange risk for each currency on a monthly basis and enter into forward foreign exchange contracts to hedge such risk. For trade payables denominated in foreign currencies arising from forecasted transactions to occur within six months regarding organized foreign tours, forward foreign exchange contracts are principally arranged considering the actual results in the past and the circumstances of the tour reservations. The basic policy is approved at a meeting once a half year in accordance with internal policy. In accordance with the approval, finance division enters into such transactions and reconciles outstanding balances with those of the counterparties. The control division of the Company monitors these risks based on the application from each operating division of each branch of certain consolidated subsidiaries. In addition, these risks are also periodically monitored by the internal audit division of the Company.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair values and relationships with the issuers.

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on reports from each division of the Company and affiliated companies, the Company prepares and updates their cash flow plans on a timely basis to manage liquidity risk. In addition, the Company has the method of keeping the liquidity level stable to a certain extent by entering into commitment line contracts to enable the Company to raise funds in accordance with the policies determined in advance.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no available quoted market price, fair value is reasonably estimated. Since various variable factors are reflected in estimating the fair value, different factors could result in different fair values. In addition, the notional amounts of derivatives in the following "*Estimated Fair Value of Financial Instruments*" section are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2011 and 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to 2 in Note 21).

	Millions of yen			Millions of yen		
	2011			2010		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash	**¥ 79,742**	**¥ 79,742**	**¥ —**	¥ 51,314	¥ 51,314	¥ —
Notes and accounts receivable	**16,734**	**16,734**	**—**	14,282	14,282	—
Accrued fares (component of notes and accounts receivables)	**26,689**	**26,689**	**—**	22,714	22,714	—
Other accounts receivable (component of notes and accounts receivables)	**47,064**	**47,064**	**—**	42,038	42,038	—
Investments in securities:						
Other securities	**6,998**	**6,998**	**—**	8,543	8,543	—
Liabilities:						
Short-term loans	**(17,515)**	**(17,515)**	**—**	(12,932)	(12,932)	—
Notes and accounts payable	**(51,207)**	**(51,207)**	**—**	(47,999)	(47,999)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	**(134,824)**	**(134,824)**	**—**	(102,385)	(102,385)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	**(15,450)**	**(15,450)**	**—**	(13,793)	(13,793)	—
Deposits (component of deposits and advances received)	**(55,467)**	**(55,467)**	**—**	(52,150)	(52,150)	—
Bonds (component of long-term debt, including current portion)	**(444,970)**	**(466,707)**	**(21,737)**	(384,968)	(404,502)	(19,534)
Long-term loans (component of long-term debt, including current portion)	**(327,920)**	**(332,863)**	**(4,943)**	(294,249)	(299,927)	(5,678)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	**(329,510)**	**(445,817)**	**(116,307)**	(359,494)	(491,197)	(131,702)
Other long-term payables (component of long-term payables, including current portion)	**(222)**	**(235)**	**(13)**	(253)	(271)	(18)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	**(343)**	**(343)**	**—**	(231)	(231)	—

	Millions of U.S. dollars		
	2011		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash	$ 960	$ 960	$ —
Notes and accounts receivable	201	201	—
Accrued fares (component of notes and accounts receivables)	321	321	—
Other accounts receivable (component of notes and accounts receivables)	567	567	—
Investments in securities:			
Other securities	84	84	—
Liabilities:			
Short-term loans	(211)	(211)	—
Notes and accounts payable	(616)	(616)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	(1,624)	(1,624)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	(186)	(186)	—
Deposits (component of deposits and advances received)	(668)	(668)	—
Bonds (component of long-term debt, including current portion)	(5,361)	(5,622)	(261)
Long-term loans (component of long-term debt, including current portion)	(3,950)	(4,010)	(59)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	(3,970)	(5,371)	(1,401)
Other long-term payables (component of long-term payables, including current portion)	(2)	(2)	(0)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(4)	(4)	—

Notes: 1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash, notes and accounts receivable, accrued fares and other accounts receivable
Since these items are settled in a short period of time, their carrying value approximates fair value.

Investments in securities
The fair value of stocks is determined based on quoted market prices. The fair value of debt securities is determined based on either quoted market prices or present value of the future cash flows discounted by the interest rate which is determined using the interest rate of national bonds plus a credit spread premium.

Short-term loans, trade notes and accounts payable, deposits, accrued income taxes and other accounts payables
Since these items are settled in a short period of time, their carrying value approximates fair value.

Bonds (including current portion)
The fair value of bonds is determined based on the quoted market price.

Long-term loans (including current portion) and other long-term payables (including current portion)
The fair value of long-term loans and long-term payables is determined based on the present value of the total amounts of principal and interest payments discounted at an interest rate to be applied if similar new loans were entered into.

The fair value of long-term loans hedged by interest-rate swap contracts is determined based on the present value of the total amounts of principal and interest discounted at interest rates applied to the swaps on the assumption that the sales had originally applied to the long-term loans.

Long-term payables for purchase of railway facilities
Long-term payables for purchase of railway facilities are monetary liabilities assumed under a special law, and it is difficult for the Company to raise funds again in the same manner. The fair value of such long-term payables are determined based on the present value of the total amounts of principal and interest payment discounted at an interest rate to be applied if similar new bonds were issued.

Derivatives transactions
Refer to Note 22.

2 Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2010	2011
Investments in securities			
Unlisted stocks	¥53,376	¥50,738	$643
Other	31	44	0

Because no quoted market price is available and also the future cash flows cannot be estimated reasonably, it is extremely difficult to determine the fair value. Therefore, the above financial instruments are not included as amounts presented in the table of "Estimated Fair Value of Financial Instruments" in this note.

3 The redemption schedule for cash, receivables and marketable securities with maturities at March 31, 2011 and 2010 is as follows:

	Millions of yen					
	2011			2010		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash	¥ 70,419	¥ —	¥ —	¥ 41,607	¥ —	¥—
Notes and accounts receivable:	16,276	457	—	14,243	39	—
Accrued fares (component of notes and accounts receivables)	26,689	—	—	22,714	–	—
Other accounts receivable (component of notes and accounts receivables)	46,842	222	—	42,035	2	0
Investments in securities:						
Other marketable securities with maturities (national government bonds)	—	37	116	—	37	—
Other marketable securities with maturities (corporate bonds)	6	25	12	6	25	18
Total	¥160,234	¥741	¥128	¥120,606	¥103	¥19

	Millions of U.S. dollars		
	2011		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash	$ 848	$—	$—
Notes and accounts receivable:	196	5	—
Accrued fares (component of notes and accounts receivables)	321	—	—
Other accounts receivable (component of notes and accounts receivables)	564	2	—
Investments in securities:			
Other marketable securities with maturities (national government bonds)	—	0	1
Other marketable securities with maturities (corporate bonds)	0	0	0
Total	$1,930	$ 8	$ 1

4 The redemption schedules for long-term debt and long-term payables are disclosed in Note 10 "Short-Term Loans and Long-Term Debt" and Note 12 "Long-Term Payables" in the Notes to Consolidated Financial Statements.

22 Derivative Transactions

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for deferral hedge accounting at March 31, 2011 were as follows:

			Millions of yen		
			2011		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps				
	Pay fixed / Receive floating	Long-term loans	¥15,000	¥15,000	(*1)
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forward transaction)	5,498	—	¥(253) (*2)
	U.S. dollars		3,475	—	(106) (*2)
	Other		865	—	17 (*2)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro		406	—	(*3)
	U.S. dollars	Other accounts payable	417	—	(*3)
	Other		73	—	(*3)
			¥25,737	¥15,000	¥(343)

			Millions of U.S. dollars		
			2011		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps				
	Pay fixed / Receive floating	Long-term loans	$180	$180	(*1)
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forward transaction)	66	—	$(3) (*2)
	U.S. dollars		41	—	(1) (*2)
	Other		10	—	0 (*2)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro		$4	—	(*3)
	U.S. dollars	Other accounts payable	$5	—	(*3)
	Other		$0	—	(*3)
			$310	$180	$(4)

(*1) Because interest rate swap contracts are accounted for as if the interest rates applied to the swaps had originally applied to the long-term loans, their fair values were included in long-term loans.
(*2) The fair value is primarily based on the prices provided by financial institutions.
(*3) Because forward foreign exchange contracts are accounted for as if the exchange rates applied to the forward foreign exchange contracts had originally applied to the other accounts payable, their fair values were included in other accounts payable.

There were no derivative transactions qualifying for deferral hedge accounting at March 31, 2010.

There were no derivative transactions not qualifying for deferral hedge accounting at March 31, 2011 and 2010.

23 Segment Information

The Company's reportable segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Company primarily engages in businesses related to transportation, sales of goods and food services and real estate.

The Company and its consolidated subsidiaries are composed of three main business segments and those reportable segments are "Transportation," "Sales of goods and food services" and "Real estate business." "Transportation" involves of railway, bus, and ferry services. "Sales of goods and food services" involves department store, restaurant, retail and wholesale businesses. "Real estate business" involves sales or leasing of real estate and management of shopping malls. "Other businesses" involves business segments not included in the reportable segments, such as hotel services, travel agent services and construction.

Accounting policies used in each reportable segment are substantially the same as those described in Note 1 "Summary of Significant Accounting Policies." Intersegment transactions are those conducted among consolidated subsidiaries and are mainly recorded at the market prices.

Reportable segment information for the years ended March 31, 2011 and 2010 is outlined as follows:

Millions of yen

	2011						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and corporate	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 806,460	¥201,322	¥ 75,767	¥129,955	¥1,213,506	¥ —	¥1,213,506
Intersegment operating revenues or transfers	17,402	48,680	14,170	174,015	254,269	(254,269)	—
Total	823,863	250,003	89,937	303,971	1,467,775	(254,269)	1,213,506
Segment income	¥ 61,165	¥ 3,586	¥ 22,251	¥ 9,674	¥ 96,678	¥ (689)	¥ 95,988
Segment assets	¥1,933,745	¥114,659	¥370,969	¥292,634	¥2,712,009	¥ (39,585)	¥2,672,423
Other items:							
Depreciation and amortization	¥ 129,513	¥ 4,905	¥ 11,829	¥ 4,638	¥ 150,886	¥ —	¥ 150,886
Loss on impairment of fixed assets	—	3,062	640	87	3,790	—	3,790
Investment to affiliates accounted for by the equity method	20,787	—	—	18,001	38,788	—	38,788
Increase in tangible and intangible fixed assets	228,495	9,497	41,858	7,917	287,768	—	287,768

Millions of yen

	2010						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and corporate	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 797,490	¥201,995	¥ 70,953	¥119,695	¥1,190,135	¥ —	¥1,190,135
Intersegment operating revenues or transfers	16,047	46,582	13,796	167,230	243,657	(243,657)	—
Total	813,538	248,578	84,749	286,925	1,433,792	(243,657)	1,190,135
Segment income	¥ 45,202	¥ 3,174	¥ 22,511	¥ 6,729	¥ 77,617	¥ (1,087)	¥ 76,530
Segment assets	¥1,874,303	¥111,147	¥324,904	¥260,732	¥2,571,087	¥ (24,703)	¥2,546,384
Other items:							
Depreciation and amortization	¥ 120,107	¥ 5,169	¥ 11,640	¥ 4,986	¥ 141,903	¥ —	¥ 141,903
Loss on impairment of fixed assets	—	169	713	2,384	3,266	—	3,266
Investment to affiliates accounted for by the equity method	20,249	—	—	16,055	36,304	—	36,304
Increase in tangible and intangible fixed assets	202,640	13,501	37,853	1,869	255,864	—	255,864

Millions of U.S. dollars

	2011						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and corporate	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	**$ 9,716**	**$2,425**	**$ 912**	**$1,565**	**$14,620**	**$ —**	**$14,620**
Intersegment operating revenues or transfers	**209**	**586**	**170**	**2,096**	**3,063**	**(3,063)**	**—**
Total	**9,926**	**3,012**	**1,083**	**3,662**	**17,684**	**(3,063)**	**14,620**
Segment income	**$ 736**	**$ 43**	**$ 268**	**$ 116**	**$ 1,164**	**$ (8)**	**$ 1,156**
Segment assets	**$23,298**	**$1,381**	**$4,469**	**$3,525**	**$32,674**	**$ (476)**	**$32,197**
Other items:							
Depreciation and amortization	**$ 1,560**	**$ 59**	**$ 142**	**$ 55**	**$ 1,817**	**$ —**	**$ 1,817**
Loss on impairment of fixed assets	**—**	**36**	**7**	**1**	**45**	**—**	**45**
Investment to affiliates accounted for by the equity method	**250**	**—**	**—**	**216**	**467**	**—**	**467**
Increase in tangible and intangible fixed assets	**2,752**	**114**	**504**	**95**	**3,467**	**—**	**3,467**

Segment income represents operating income in the consolidated statements of income for the years ended March 31, 2011 and 2010.

Information on each product and service for the year ended March 31, 2011 was omitted because it was same as that of the reportable segment information.

Geographical information and sales information to major customers for the year ended March 31, 2011 was omitted because there were no items that meet their disclosure criteria.

Information on loss on impairment of fixed assets per each reportable segment for the year ended March 31, 2011 was as follows:

Millions of yen

	2011				
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal
Loss on impairment of fixed assets	**¥—**	**¥3,062**	**¥640**	**¥87**	**¥3,790**

Millions of U.S. dollars

	2011				
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal
Loss on impairment of fixed assets	**$—**	**$36**	**$7**	**$1**	**$45**

Information on amortization of goodwill and negative goodwill, the balances and gain on recognition of negative goodwill as of and for the year ended March 31, 2011 was omitted because the amounts were immaterial.

Under the former segmentation policy applied by the Company up to the year ended March 31, 2010, segment information for the years ended March 31, 2010 and 2009 was as follows:

Millions of yen

	2010						
	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	¥ 797,490	¥201,995	¥ 70,953	¥119,695	¥1,190,135	¥ —	¥1,190,135
Intersegment operating revenues and transfers	16,047	46,582	13,796	167,230	243,657	(243,657)	—
Operating revenues	813,538	248,578	84,749	286,925	1,433,792	(243,657)	1,190,135
Operating expenses	768,335	245,404	62,237	280,196	1,356,175	(242,569)	1,113,605
Operating income	¥ 45,202	¥ 3,174	¥ 22,511	¥ 6,729	¥ 77,617	¥ (1,087)	¥ 76,530
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥1,874,303	¥111,147	¥324,904	¥260,732	¥2,571,087	¥ (24,703)	¥2,546,384
Depreciation and amortization	120,107	5,169	11,640	4,986	141,903	—	141,903
Loss on impairment of fixed assets	—	169	713	2,384	3,266	—	3,266
Capital expenditures	198,386	4,255	37,524	6,140	246,308	—	246,308

Millions of yen

	2009						
	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	¥ 856,184	¥215,371	¥ 71,140	¥132,612	¥1,275,308	¥ —	¥1,275,308
Intersegment operating revenues and transfers	16,439	44,974	13,073	168,335	242,823	(242,823)	—
Operating revenues	872,624	260,345	84,213	300,947	1,518,131	(242,823)	1,275,308
Operating expenses	783,500	255,568	61,595	294,220	1,394,884	(242,095)	1,152,789
Operating income	¥ 89,124	¥ 4,776	¥ 22,618	¥ 6,727	¥ 123,246	¥ (727)	¥ 122,519
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥1,831,341	¥ 99,729	¥306,405	¥255,672	¥2,493,150	¥ (31,261)	¥2,461,889
Depreciation and amortization	115,792	3,317	11,334	6,564	137,009	—	137,009
Loss on impairment of fixed assets	51	—	—	—	51	—	51
Capital expenditures	160,407	2,522	26,544	8,320	197,793	—	197,793

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.

On April 1, 2009, one consolidated subsidiary split up some businesses and was merged with another consolidated subsidiary. As a result of review of the business segment considering character of the business and actual control structure, leasing business operated by merging consolidated subsidiary and included in "Other" segment was changed to "Sales of goods and food services" segment for the year ended March 31, 2010.

The business segment information of the Company and its consolidated subsidiaries conformed with revised classifications for the year ended March 31, 2009 was outlined as follows:

Millions of yen

	2009						
	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	¥ 856,184	¥217,306	¥ 71,140	¥130,676	¥1,275,308	¥ —	¥1,275,308
Intersegment operating revenues and transfers	16,439	46,502	13,073	167,090	243,106	(243,106)	—
Operating revenues	872,624	263,808	84,213	297,767	1,518,414	(243,106)	1,275,308
Operating expenses	783,500	258,917	61,595	291,154	1,395,167	(242,378)	1,152,789
Operating income	¥ 89,124	¥ 4,891	¥ 22,618	¥ 6,612	¥ 123,247	¥ (727)	¥ 122,519
II. Total assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥1,831,341	¥110,688	¥306,405	¥259,180	¥2,507,616	¥ (45,727)	¥2,461,889
Depreciation and amortization	115,792	5,327	11,334	4,555	137,009	—	137,009
Loss on impairment of fixed assets	51	—	—	—	51	—	51
Capital expenditures	160,407	2,971	26,544	7,870	197,793	—	197,793

24 Subsequent Events

(1) Based on a resolution approved at a meeting of the Board of Directors held on May 18, 2011, the Company determined to implement a share split and adopt a lot trading system. The purpose of the split and the adoption of the lot trading system is to improve the availability and liquidity of the Company's shares on the stock exchange market considering the action plan for determining the transaction units launched by Japanese stock exchanges announced in November 2007. As a result, effective from July 1, 2011, the Company plans to split one share into 100 shares. In addition, the Company plans to set one trading lot at 100 shares.

Pro forma information on amounts per share at March 31, 2011 and 2010 and for the years then ended assuming that the split was implemented at April 1, 2010 and at April 1, 2009 was as follows:

	Yen		U.S. dollars
	2011	2010	**2011**
Net assets	**¥3,557.13**	¥3,455.68	**$42**
Net income	**180.66**	128.37	**2**

Pro forma information on diluted net income per share has not been presented for the years ended March 31, 2011 and 2010 since the Company had no potentially dilutive stock at March 31, 2011 and 2010.

(2) At a meeting held on May 18, 2011, the Board of Directors of the Company proposed the following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, and which is to be approved at a meeting of the shareholders of the Company to be held on June 23, 2011:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥4,000 = U.S.$48 per share)	¥7,749	$93

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, 2011, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011, 2010 and 2009, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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.

June 22, 2011 Ernst & Young ShinNihon LLC

Ernst & Young ShinNihon LLC