FINANCIAL SECTION

Contents

Results of Operations

For fiscal 2012, ended March 31, 2012, operating revenues increased ¥74.1 billion, or 6.1%, year on year, to ¥1,287.6 billion, because the numerous passengers using the Group's transportation services as a result of the Group's concerted effort to maximize the benefits of two major projects—direct services with the Kyushu Shinkansen Line and Osaka Station City—compensated for the effect of the Great East Japan Earthquake, which occurred in March 2011.

Total operating expenses rose ¥60.3 billion, or 5.4%, year on year, to ¥1,177.8 billion, reflecting increases in the cost of sales, non-personnel costs, and depreciation and amortization, which accompanied the opening of the two major projects. Nevertheless, operating income was up ¥13.8 billion, or 14.4%, year on year, to ¥109.7 billion.

Total non-operating expenses increased ¥0.3 billion, to ¥27.3 billion, because equity in losses of affiliates offset lower interest expense.

Total extraordinary losses improved ¥5.7 billion year on year, to ¥2.2 billion. The Company recognized extraordinary losses because extraordinary profits resulting from gain on contributions received for constructions did not fully absorb a loss on reduction of fixed assets associated with these constructions and loss incurred as a result of a major disaster.

Net income declined ¥5.4 billion, or 15.7%, year on year, to ¥29.4 billion, due to a revision of deferred tax assets accompanying the promulgation of a law related to the lowering of income tax rates.

Factors Affecting Revenues

The transportation operations segment's revenue from passenger tickets is derived mainly from railway transportation. Because revenue from passenger tickets depends mainly on passenger numbers, numerous factors affect it, including competition from other modes of transportation, such as airlines; competition from rival railway companies; economic conditions; and the falling birthrate and aging population. Furthermore, we believe that railway passengers make 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. Given that the number of business and leisure passengers using the line is the principal factor affecting it, revenue from the Sanyo Shinkansen Line reflects economic conditions and competition with domestic airlines. A large proportion of revenues from JR-West's Urban Network are derived from passengers commuting to work or school. Consequently, these revenues are less susceptible to the effect of economic conditions. However, the Group anticipates that demographic changes, including the declining birthrate and an aging population, and continuing urbanization will affect these revenues. For some of JR-West's other conventional lines, such factors as economic conditions and competition with intercity bus services and private automobiles affect revenues from passengers traveling between cities. As for local lines, such factors as competition with private automobiles, local economic conditions, and demographic trends affect revenues.

The retail business segment's revenues primarily come from department store businesses, merchandise sales, and restaurant operations. As well as economic conditions, competition from other department stores, retailers, and restaurants affects this segment's revenues. Furthermore, because businesses in this segment are predominantly located in stations or their surrounding areas, traffic volume also affects revenues. However, because the number of passengers using stations is relatively stable, this segment's revenues are less susceptible to the effect of such competition compared with the revenues of other companies in the same industries. Also, the number of new store openings and store closings affects the segment's revenues.

The Real Estate Business segment's revenues are derived mainly from leasing income from the leasing of facilities in and around stations. Although economic conditions affect this segment, it is affected less than competitors, because stations enjoy relatively stable traffic, and tenants prefer offices that are conveniently located either on station premises or in the surrounding area. Most of the Group's real estate leasing contracts comprise fixed rent and rent that varies depending on the tenant's sales. Consequently, fluctuations in tenants' sales affect the real estate business segment's revenues. Attracting popular stores as tenants is important not only to bolster sales-linked rent but also to increase the customer-drawing power of the Group's stations and shopping centers. Further, remodeling stores is an important facet in enhancing customer-drawing power.

The other businesses segment's revenues primarily comprise revenues from hotel and travel agency operations. Economic conditions, room rates, and competition from other hotels mainly affect revenues from hotel operations. Competition from other travel agents as well as others factors deterring travel, such as adverse economic conditions or terrorist attacks, affect revenues from travel agency operations. In addition to hotel and travel agency operations, the Other Businesses segment includes construction, advertising, and other businesses. The Company conducts these businesses primarily with a view to expanding the customer base of its mainstay railway business and to enhancing its stations and other facilities.

Factors Affecting Expenses

Due to an increase in retirees as a result of the Company's early retirement program, the Company is recruiting new employees required for the operation of its businesses. For fiscal 2012, personnel costs rose ¥2.6 billion year on year, to ¥237.9 billion.

The characteristics of railway operations include (i) the ownership of a large amount of facilities and equipment that incur comparatively high costs for maintenance needed to ensure safety and (ii) a high proportion of fixed costs that are not linked to revenues. Given these characteristics, for non-personnel costs the JR-West Group focuses on structural reductions in 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, the Company is currently implementing 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, in relation to safety enhancement we envision costs rising for the foreseeable future. Furthermore, we anticipate additional costs arising from initiatives to improve the Company's competitiveness relative to other modes of transportation. These initiatives will include enhancing service quality, introducing information technologies (IT) to promote sales, and increasing outsourcing to improve operational efficiency.

With 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 into consideration interest rate fluctuations and other factors. As a result, railway usage charges have been reduced from fiscal 2012 onward. For fiscal 2012, expenses paid were approximately ¥15.2 billion.

Interest expense is a major component of non-operating expenses. 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 business management. For fiscal 2012, the Group's interest expense declined ¥0.8 billion, to ¥32.9 billion, as a result of interest rate reductions on total long-term liabilities.

Cash Flows

Net cash provided by operating activities decreased ¥16.9 billion year on year, to ¥206.2 billion, primarily due to a decrease in notes and accounts payable.

Net cash used in investing activities was down ¥47.1 billion year on year, to ¥199.1 billion, which was attributable to such factors as lower purchases of property, plant and equipment.

Net cash provided by financing activities declined ¥88.2 billion year on year, to ¥36.8 billion, mainly reflecting a decrease in proceeds from issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2012, amounted to ¥50.3 billion, down ¥29.1 billion from the end of the previous fiscal year.

Capital Demand and Capital Expenditures

In fiscal 2012, the JR-West Group undertook capital expenditures totaling ¥208.8 billion, of which the transportation operations segment accounted for ¥142.5 billion, the retail business segment ¥21.1 billion, the real estate business segment ¥41.9 billion, and the other businesses segment ¥3.1 billion.

Capital expenditures in the transportation operations segment were 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 retail business, real estate business, and other businesses segments were mainly for construction of new facilities and renovation of aged facilities.

Furthermore, the JR-West Group implemented capital expenditures of approximately ¥190.0 billion for the Osaka Station Development Project and ¥20.0 billion for the expansion of the ACTY Osaka Building, with these facilities beginning full-fledged operations in May 2011.

Further, in response to the serious accident that occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations, the JR-West Group 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 flows. At the same time, however, the Group recognizes that improving capital efficiency is an extremely important facet of business management. As part of efforts in this area, in October 2002 the Group introduced a cash management service (CMS) to ensure effective utilization of Group funds.

Regarding financing, the JR-West Group typically procures funds for repayments of existing debt, capital expenditures, or other expenses that the Group's cash flows cannot cover.
The Group determines financing methods, including corporate bonds and long-term bank loans, based on a comprehensive consideration of market trends, interest rates, and other factors.
For short-term financing, our basic policy is to raise the necessary capital mainly through short-term bonds. Furthermore, we have concluded commitment line contracts allowing procurement of funds, in accordance with prescribed conditions, 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

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 proposals and opinions included in the report on the Fukuchiyama Line accident published by the Aircraft and Railway Accidents Investigation Commission in June 2007. In addition, 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.

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.

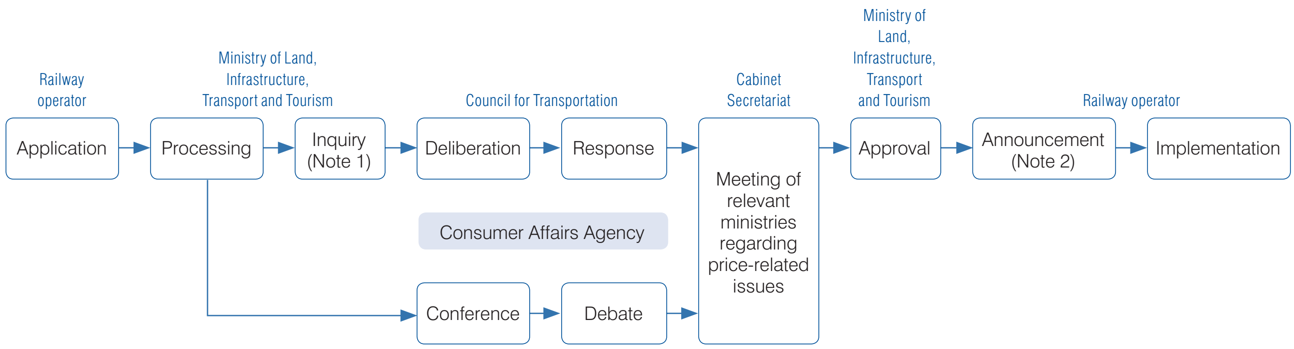
3 Relating to Establishment of and Changes to Fares and Surcharges

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.



Notes: 1 This procedure is pursuant to article 62, item 2, of the Railway Operation Act. Further, in accordance with article 23 of the Act for Establishment of the Ministry of Land, Infrastructure, Transport and Tourism (1999, Law No. 100), a press conference must be held in cases when deliberation by the Council for Transportation is required or when directions are received from the Minster of the MLIT.

2 Article 3, item 2, of the Railway Operation Act stipulates that, when a company violates the limits of fares or other transportation conditions, an announcement must be made within 7 days of the violation.

Moreover, in order to improve the convenience of users when reforming national railways, a system is currently in place under which the total fares or other costs associated with customers or cargo traveling between two or more transportation providers can be decided based on contracts between the companies involved. This system generally allows for lower fares for longer travel distances. Furthermore, this system does not interfere with transportation providers’ ability to establish their own pricing systems.

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 therefore 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)
• December 2011
(items confirmed by the national government and ruling parties)
Confirmation of future policies regarding the development of Shinkansen lines

Details of the items confirmed by the national government and ruling parties regarding the Hokuriku Shinkansen Line in December 2011

For new segments of track, construction is to begin after necessary approval procedures have been conducted for segments for which profitability and investment effectiveness have been reconfirmed and for which the conditions outlined below have been met and issues (see notes below) have been addressed.

Segment	Conditions to be met before approval / construction	Scheduled completion / start of operation
Between Hakusan car maintenance center–Tsuruga	• Approval by JR-West • Approval by municipal governments bordering tracks with regard to separate management of parallel conventional lines	Over 10 years from start of services between Nagano–Hakusan car maintenance center (end of 2014)

Note: Network development west of Tsuruga will be conducted based on the following policies.
- Due to financial limitations, it will be difficult to develop such a network prior to the completion of the three segments currently under way due to financial limitations. However, as the opening of lines extending to Tsuruga will increase connection points to main lines, we are considering the development of a network connecting the Kanto and Kansa regions through Hokuriku.
- Measures to prevent reduced passenger convenience stemming from the need to change trains at Tsuruga will be considered based on the opinions of JR-West and relevant municipal governments.

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
- June 2012
  Hakusan car maintenance center–Tsuruga segment (114 km): 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.

The expected profitability of the Hokuriku Shinkansen Line was announced in the form of a trial calculation by the MLIT in consideration of the items confirmed by the national government and ruling parties in December 2011. However, the usage fees to be paid after the start of services are not to be influenced by this trial calculation, but rather are to be decided based on discussions before the start of services and are to be contained within the bounds of the income generated by the lines.

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

Based on the items confirmed by the national government and ruling parties in December 2011, the MLIT granted the Company approval to begin construction of the segment between the Hakusan car maintenance center and Tsuruga and also approved our plans to introduce gauge change trains (GCTs) on track segments west of Tsuruga and conduct direct services between Shinkansen and conventional lines in the future.

As the establishment of Shinkansen lines between Kanezawa and Osaka should create significant reductions in travel time, we feel it would be most beneficial to start services on all lines running to Osaka. However, for the time being, we have informed the MLIT that we have agreed to the plan to start construction as far as Tsuruga and that there were no objections to the plan to introduce GCTs. This decision was reached in consideration of the travel time reductions that will be realized by extending lines to Tsuruga, which connects the Kansai and Chukyo regions to Hokuriku, and the increased convenience achieved by eliminating the need to change trains at Tsuruga through the use of GCTs. Furthermore, in introducing GCTs, we realize that it will be of the utmost importance to take steps to ensure the safety, durability, and maintainability of the trains, and also develop measures to address snow.

But even if segments to undergo construction are extended with the aim of starting services on all lines, 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 "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 January 2012, Japan's total population of 128.06 million people in 2010 was set to enter a long-standing depopulation process, and by 2048 was projected to fall below 100.00 million people, to 99.13 million people. The working-age population (15 to 64) peaked in 1995, and subsequently entered a depopulation phase. By 2010, it had fallen to 81.73 million people, and by 2030 it is forecast to decrease to 67.73 million people. In contrast, the old-age population (65 and over), which was 29.48 million people in 2010, was projected to increase to 36.85 million people by 2030.

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. This may also impact the Group's ability to secure the human resources that support its business operations.

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 Kyushu 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 2012, it revised timetables, which also entailed introducing 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 retail business, 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 retail business, 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 stations and the 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 years ended March 31, 2010 and 2011, owing to such factors as the start of our two major projects—the Osaka Station Development Project and the direct services between the Sanyo and the Kyushu Shinkansen lines—capital expenditures remained at relatively high levels. As a result, consolidated long-term debt entered a temporary upward phase. However, long-term debt began to decline after the start of these two projects. Accordingly, consolidated long-term debt at March 31, 2012, stood at ¥1,068.8 billion (including the current portion thereof), a decrease of 3.0% compared with the previous fiscal year-end. Interest payments for the fiscal years ended March 31, 2010, 2011, and 2012, were ¥34.3 billion, ¥33.7 billion, and ¥32.9 billion, respectively.

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. 90,000 m^2; specialty stores, approx. 40,000 m^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. Furthermore, in response to the Company's increased dependence on IT and in consideration of the impacts of the Great East Japan Earthquake, which occurred on March 11, 2011, the Company has strengthened and revised the facilities and infrastructure used to maintain the stable operation of its computer systems and is systematically instituting natural disaster countermeasures.

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, 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 reinforcement of the earthquake resistance of the pillars used to support elevated tracks. In addition, we are considering the introduction of guidelines stipulating proper evacuation and evacuee guidance measures to be implemented in the event of a major tsunami. Moreover, the Company 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 developing other measures to prevent, to the greatest possible extent, serious damages to the Group's operations due to occurrences 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) which there was an outbreak of in 2003 or the extremely dangerous swine influenza virus, 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 2009, with regard to a grave issue concerning compliance that had come up in the investigation of the Fukuchiyama Line accident 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 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 to 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 to promote good corporate ethics. The Company has also established the Ethics Office and the Public Interest Information Office to offer advice and to 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. In December 2010, the Company submitted a report to the MLIT detailing the status of implementation of these and other remediation measures. Furthermore, in February 2012 the Corporate Ethics Committee compiled a report based on the discussions conducted and the subsequent advice received to date. We aim to incorporate the proposals made in this report into our compliance initiatives.

13 Relating to the Fukuchiyama Line 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 under way. 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. Since July 6, 2012, the Kobe District Court has been conducting proceedings.

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, 2012, 2011 and 2010

	Millions of yen			Millions of U.S. dollars (Note 1)
	2012	2011	2010	2012
ASSETS				
Current assets:				
Cash (Notes 3, 10 and 20)	**¥ 50,619**	¥ 79,742	¥ 51,314	**$ 617**
Notes and accounts receivable (Note 20):				
Unconsolidated subsidiaries and affiliates	**1,295**	1,204	2,103	**15**
Trade	**91,409**	92,711	80,846	**1,114**
Less allowance for doubtful accounts	**(835)**	(872)	(840)	**(10)**
Inventories (Note 5)	**33,360**	28,043	29,534	**406**
Income taxes refundable (Note 12)	**89**	199	641	**1**
Deferred income taxes (Note 12)	**19,455**	18,961	17,857	**237**
Prepaid expenses and other current assets	**45,507**	42,442	41,794	**554**
Total current assets	**240,902**	262,432	223,254	**2,937**
Investments:				
Unconsolidated subsidiaries and affiliates (Notes 6 and 22)	**48,916**	51,154	48,462	**596**
Other securities (Notes 4, 10 and 20)	**9,535**	9,252	10,865	**116**
Total investments	**58,452**	60,407	59,327	**712**
Property, plant and equipment, at cost (Notes 7, 8, 10 and 11)**:**				
Land	**656,358**	655,872	658,809	**8,004**
Buildings and structures	**3,040,716**	2,888,854	2,832,430	**37,081**
Machinery, equipment and vehicles	**1,257,136**	1,249,699	1,170,282	**15,330**
Tools, furniture and fixtures	**131,969**	119,251	112,297	**1,609**
Construction in progress	**41,282**	139,615	107,533	**503**
	5,127,462	5,053,294	4,881,352	**62,530**
Less accumulated depreciation	**(2,967,938)**	(2,902,676)	(2,809,076)	**(36,194)**
Property, plant and equipment, net	**2,159,523**	2,150,617	2,072,276	**26,335**
Deferred income taxes (Note 12)	**123,584**	142,069	139,030	**1,507**
Other assets	**60,530**	56,896	52,496	**738**
Total assets (Note 22)	**¥ 2,642,994**	¥ 2,672,423	¥ 2,546,384	**$ 32,231**

See accompanying notes to consolidated financial statements.

	2012	2011	2010	2012
			Millions of yen	Millions of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS				
Current liabilities:				
Short-term loans (Notes 9 and 20)	¥ 27,562	¥ 17,515	¥ 12,932	$ 336
Current portion of long-term debt (Notes 9, 10 and 20)	103,314	45,894	34,454	1,259
Current portion of long-term payables (Notes 11 and 20)	40,854	39,132	30,051	498
Notes and accounts payable (Note 20):				
Unconsolidated subsidiaries and affiliates	5,581	10,228	5,678	68
Trade	132,652	175,454	144,359	1,617
Prepaid railway fares received	32,359	31,183	31,450	394
Deposits and advances received (Note 20)	99,214	80,258	87,211	1,209
Accrued expenses (Note 20)	67,071	62,131	60,105	817
Accrued income taxes (Notes 12 and 20)	20,476	13,467	11,877	249
Allowance for customer point programs	1,005	660	580	12
Deferred income taxes (Note 12)	4	—	—	0
Other current liabilities	16,744	11,910	9,500	204
Total current liabilities	546,842	487,837	428,201	6,668
Long-term debt (Notes 9, 10 and 20)	684,932	735,472	652,160	8,352
Long-term payables (Notes 11 and 20)	249,780	290,599	329,696	3,046
Accrued retirement benefits (Note 14)	316,876	322,737	324,801	3,864
Allowance for environmental safety measures	6,394	7,033	9,039	77
Allowance for unutilized gift tickets	2,550	2,670	2,715	31
Deferred income taxes (Note 12)	244	241	213	2
Other long-term liabilities	101,827	104,579	97,413	1,241
Total long-term liabilities	1,362,605	1,463,334	1,416,040	16,617
Contingent liabilities (Note 15)				
Net assets:				
Shareholders' equity (Note 16):				
Common stock:				
Authorized – 800,000,000 shares at March 31, 2012 and 8,000,000 shares at March 31, 2011 and 2010				
Issued and outstanding – 200,000,000 shares at March 31, 2012 and 2,000,000 shares at March 31, 2011 and 2010	100,000	100,000	100,000	1,219
Capital surplus	55,000	55,000	55,000	670
Retained earnings (Note 23)	577,999	563,766	543,323	7,048
Less treasury stock, at cost – 6,358,499 shares at March 31, 2012 and 63,584 shares at March 31, 2011 and 2010	(30,343)	(30,343)	(30,343)	(370)
Total shareholders' equity	702,656	688,423	667,980	8,568
Accumulated other comprehensive income:				
Net unrealized holding gain on securities (Note 4)	902	546	1,292	11
Net unrealized deferred loss on hedging instruments	(173)	(161)	(108)	(2)
Total accumulated other comprehensive income	728	384	1,183	8
Minority interests	30,161	32,443	32,977	367
Total net assets	733,546	721,251	702,141	8,945
Total liabilities and net assets	¥2,642,994	¥2,672,423	¥2,546,384	$32,231

CONSOLIDATED STATEMENTS OF INCOME

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Millions of U.S. dollars (Note 1)
	2012	2011	2010	2012
Operating revenues (Note 22)	¥1,287,679	¥1,213,506	¥1,190,135	$15,703
Operating expenses:				
Transportation, other services and cost of sales	999,745	950,419	915,865	12,192
Selling, general and administrative expenses (Note 17)	178,133	167,097	197,739	2,172
	1,177,879	1,117,517	1,113,605	14,364
Operating income (Note 22)	109,799	95,988	76,530	1,339
Other income (expenses):				
Interest and dividend income	454	477	632	5
Interest expense	(32,948)	(33,786)	(34,309)	(401)
Equity in (losses) earnings of affiliates	(847)	2,421	807	(10)
Other, net	3,798	(4,079)	32	46
	(29,543)	(34,967)	(32,836)	(360)
Income before income taxes and minority interests	80,256	61,021	43,693	978
Income taxes (Note 12)**:**				
Current	35,023	29,952	31,047	427
Deferred	17,887	(3,587)	(11,820)	218
	52,910	26,364	19,226	645
Income before minority interests	27,345	34,656	24,466	333
Minority interests	2,143	326	391	26
Net income	¥ 29,489	¥ 34,983	¥ 24,858	$ 359

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Millions of U.S. dollars (Note 1)
	2012	2011	2010	2012
Income before minority interests	¥27,345	¥34,656	¥24,466	$333
Other comprehensive income (loss) (Note 18):				
Net unrealized holding gain (loss) on securities	316	(690)	277	3
Net unrealized deferred (loss) gain on hedging instruments	(14)	(66)	156	(0)
The Company's share of other comprehensive income (loss) of affiliates accounted for by the equity method	32	(50)	5	0
Total other comprehensive income (loss)	334	(807)	439	4
Total comprehensive income	¥27,680	¥33,849	¥24,906	$337

Comprehensive income (loss) attributable to the shareholders of the Company and minority shareholders of consolidated subsidiaries for the years ended March 31, 2012, 2011 and 2010 was as follows:

	Millions of yen			Millions of U.S. dollars (Note 1)
	2012	2011	2010	2012
Comprehensive income attributable to shareholders of the Company	¥29,833	¥34,184	¥25,271	$363
Comprehensive loss attributable to minority shareholders of consolidated subsidiaries	(2,153)	(334)	(365)	(26)
Total comprehensive income	¥27,680	¥33,849	¥24,906	$337

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, 2012, 2011 and 2010

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 April 1, 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 an unconsolidated subsidiary	—	—	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 April 1, 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 April 1, 2011	¥100,000	¥55,000	¥563,766	¥(30,343)	¥688,423	¥ 546	¥(161)	¥ 384	¥32,443	¥721,251
Net income for the year	**—**	**—**	**29,489**	**—**	**29,489**	**—**	**—**	**—**	**—**	**29,489**
Cash dividends	**—**	**—**	**(15,498)**	**—**	**(15,498)**	**—**	**—**	**—**	**—**	**(15,498)**
Purchases of treasury stock	**—**	**—**	**—**	**(0)**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Increase in retained earnings resulting from change in numbers of consolidated subsidiaries	**—**	**—**	**242**	**—**	**242**	**—**	**—**	**—**	**—**	**242**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**355**	**(11)**	**344**	**(2,281)**	**(1,937)**
Balance at March 31, 2012	**¥100,000**	**¥55,000**	**¥577,999**	**¥(30,343)**	**¥702,656**	**¥ 902**	**¥(173)**	**¥ 728**	**¥30,161**	**¥733,546**

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 April 1, 2011	$1,219	$670	$6,875	$(370)	$8,395	$ 6	$(1)	$4	$395	$8,795
Net income for the year	**—**	**—**	**359**	**—**	**359**	**—**	**—**	**—**	**—**	**359**
Cash dividends	**—**	**—**	**(189)**	**—**	**(189)**	**—**	**—**	**—**	**—**	**(189)**
Purchases of treasury stock	**—**	**—**	**—**	**(0)**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Increase in retained earnings resulting from change in numbers of consolidated subsidiaries	**—**	**—**	**2**	**—**	**2**	**—**	**—**	**—**	**—**	**2**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**4**	**(0)**	**4**	**(27)**	**(23)**
Balance at March 31, 2012	**$1,219**	**$670**	**$7,048**	**$(370)**	**$8,568**	**$11**	**$(2)**	**$8**	**$367**	**$8,945**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2012, 2011 and 2010

	Millions of yen			Millions of U.S. dollars (Note 1)
	2012	2011	2010	2012
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 80,256	¥ 61,021	¥ 43,693	$ 978
Adjustments for:				
Depreciation and amortization	169,330	150,886	141,903	2,065
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	15,162	38,530	35,200	184
Loss on disposal of property, plant and equipment	8,058	8,878	8,873	98
Increase (decrease) in allowance for doubtful accounts	18	(29)	140	0
(Decrease) increase in accrued retirement benefits	(5,861)	(2,063)	31,959	(71)
Increase (decrease) in accrued bonuses	295	1,141	(1,259)	3
Decrease in other accruals	(184)	(1,728)	(1,302)	(2)
Interest and dividend income	(454)	(477)	(632)	(5)
Interest expense	32,948	33,786	34,309	401
Equity in losses (earning) of affiliates	847	(2,421)	(807)	10
Gain on contributions received for construction	(16,182)	(39,737)	(35,961)	(197)
Decrease (increase) in notes and accounts receivable	2,075	(10,945)	4,623	25
(Increase) decrease in inventories	(5,311)	1,491	(5,339)	(64)
Decrease (increase) in notes and accounts payable	(20,227)	28,247	(15,242)	(246)
Increase (decrease) in accrued consumption taxes	4,585	2,029	(4,466)	55
Other	1,226	15,797	3,666	14
Subtotal	266,583	284,406	239,359	3,251
Interest and dividend income received	454	473	619	5
Interest paid	(32,900)	(33,875)	(34,409)	(401)
Income taxes paid	(27,909)	(27,783)	(44,260)	(340)
Net cash provided by operating activities	206,228	223,221	161,309	2,514
Cash flows from investing activities				
Purchases of marketable securities	—	(30,000)	—	—
Proceeds from sales of marketable securities	—	30,000	—	—
Payments for time deposits with a maturity in excess of three months	(230)	(230)	(35,230)	(2)
Proceeds from time deposits with a maturity in excess of three months	230	230	35,230	2
Purchases of property, plant and equipment	(222,806)	(277,342)	(246,183)	(2,717)
Proceeds from sales of property, plant and equipment	2,363	659	1,791	28
Contributions received for construction	23,090	34,370	37,855	281
Increase in investments in securities	(334)	(566)	(812)	(4)
Proceeds from sales of investments in securities	177	120	800	2
Increase in long-term loans receivable	(603)	(679)	(584)	(7)
Collection of long-term loans receivable	980	760	562	11
Other	(2,021)	(3,616)	(2,210)	(24)
Net cash used in investing activities	(199,153)	(246,293)	(208,782)	(2,428)
Cash flows from financing activities				
Increase (decrease) in short-term loans	595	1,897	(16,493)	7
Proceeds from long-term loans	40,100	67,100	66,900	489
Repayment of long-term loans	(44,796)	(33,460)	(42,770)	(546)
Proceeds from issuance of bonds	10,000	60,000	115,000	121
Redemption of bonds	—	—	(20,000)	—
Repayment of long-term payables	(39,065)	(29,984)	(33,437)	(476)
Purchases of treasury stock	(0)	—	—	(0)
Cash dividends paid to the Company's shareholders	(15,487)	(14,517)	(13,552)	(188)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(49)	(117)	(117)	(0)
Other	11,863	528	(907)	144
Net cash (used in) provided by financing activities	(36,840)	51,445	54,621	(449)
Net (decrease) increase in cash and cash equivalents	(29,765)	28,373	7,148	(362)
Cash and cash equivalents at beginning of year	79,512	51,084	41,184	969
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	1	54	2,690	0
Increase in cash and cash equivalents resulting from merger of unconsolidated subsidiaries	641	—	61	7
Cash and cash equivalents at end of year (Note 3)	¥ 50,389	¥ 79,512	¥ 51,084	$ 614

See accompanying notes to consolidated financial statements.

West Japan Railway Company and its consolidated subsidiaries
March 31, 2012

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.

Certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the years ended March 31, 2011 and 2010 to the 2012 presentation. Such reclassifications had no effect on consolidated net income or net assets.

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 ¥82=U.S.$1.00, the exchange rate prevailing on March 31, 2012. 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 credited 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, a period of five years.

(9) Leases

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 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.

(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 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, currency swap contracts and interest-rate swap contracts are utilized to manage foreign currency and interest-rate risk. Forward foreign exchange contracts and currency swap 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 or currency swap 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) Accounting Standard for Earnings per Share
Effective the year ended March 31, 2012, the Company and its consolidated subsidiaries adopted “Accounting Standard for Earnings Per Share” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 2 revised on June 30, 2010), “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4 revised on June 30, 2010), and “Practical Solution on Accounting for Earnings Per Share” (ASBJ Practical Issues Task Force (PITF) No. 9 revised on June 30, 2010) (Refer to Note 19).

(2) Accounting Standard for Accounting Changes and Error Corrections
Effective April 1, 2011, the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24 issued on December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24 issued on December 4, 2009).

03 Cash and Cash Equivalents

The balances of cash reflected in the accompanying consolidated balance sheets at March 31, 2012, 2011 and 2010 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
	2012	2011	2010	2012
Cash	**¥50,619**	¥79,742	¥51,314	**$617**
Time deposits with original maturities in excess of three months included in cash	**(230)**	(230)	(230)	**(2)**
Cash and cash equivalents	**¥50,389**	¥79,512	¥51,084	**$614**

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, 2012, 2011 and 2010. 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, 2012, 2011 and 2010 are summarized as follows:

	Millions of yen					
	2012			2011		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥2,329**	**¥4,044**	**¥1,714**	¥2,726	¥3,931	¥1,204
Debt securities:						
Government bonds	**143**	**145**	**1**	37	37	0
Corporate bonds	**37**	**38**	**1**	43	45	1
Subtotal	**2,511**	**4,228**	**1,717**	2,807	4,014	1,206
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**3,644**	**3,046**	**(597)**	3,404	2,881	(522)
Debt securities:						
Government bonds	**33**	**32**	**(0)**	105	103	(2)
Subtotal	**3,677**	**3,079**	**(598)**	3,509	2,984	(524)
Total	**¥6,188**	**¥7,308**	**¥1,119**	¥6,317	¥6,998	¥ 681

	Millions of yen		
	2010		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥4,944	¥7,211	¥2,266
Debt securities:			
Government bonds	37	37	0
Corporate bonds	50	51	1
Subtotal	5,031	7,300	2,269
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	1,665	1,242	(422)
Subtotal	1,665	1,242	(422)
Total	¥6,697	¥8,543	¥1,846

	Millions of U.S. dollars		
	2012		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$28**	**$49**	**$20**
Debt securities:			
Government bonds	**1**	**1**	**0**
Corporate bonds	**0**	**0**	**0**
Subtotal	**30**	**51**	**20**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**44**	**37**	**(7)**
Debt securities:			
Government bonds	**0**	**0**	**(0)**
Subtotal	**44**	**37**	**(7)**
Total	**$75**	**$89**	**$13**

05 Inventories

Inventories at March 31, 2012, 2011 and 2010 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Merchandise and real estate for sale	**¥ 7,562**	¥ 5,123	¥ 5,133	**$ 92**
Contracts in process	**11,529**	11,118	12,106	**140**
Rails, materials and supplies	**14,268**	11,801	12,295	**174**
	¥33,360	¥28,043	¥29,534	**$406**

06 Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2012, 2011 and 2010 consisted of the following:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Investments in:				
Unconsolidated subsidiaries	**¥ 9,670**	¥11,181	¥11,040	**$117**
Affiliates	**39,245**	39,973	37,421	**478**
	¥48,916	¥51,154	¥48,462	**$596**

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, 2012, 2011 and 2010 totaled ¥15,162 million ($184 million), ¥38,530 million and ¥35,200 million, respectively. The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2012, 2011 and 2010 amounted to ¥650,682 million ($7,935 million), ¥637,643 million and ¥603,841 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, 2012, 2011 and 2010 totaled ¥2,960 million ($36 million), ¥4,805 million and ¥6,124 million, respectively.

08 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 ¥37,613 million ($458 million), ¥25,290 million and ¥26,085 million for the years ended March 31, 2012, 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, 2012, 2011 and 2010 are as follows:

Millions of yen

			2012
		Carrying value	Fair value
As of March 31, 2011	Net change	As of March 31, 2012	As of March 31, 2012
¥142,575	**¥9,367**	**¥151,942**	**¥335,608**

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

			2012
		Carrying value	Fair value
As of March 31, 2011	Net change	As of March 31, 2012	As of March 31, 2012
$1,738	**$114**	**$1,852**	**$4,092**

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, 2012, 2011 and 2010 included increases mainly due to acquisitions of real estate properties in the amount of ¥23,696 million ($288 million), ¥32,216 and ¥17,353 million and decreases mainly due to depreciation in the amount of ¥7,719 million ($94 million), ¥4,353 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.

09 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, 2012, 2011 and 2010 ranged from 0.24% to 0.67%, from 0.23% to 0.79%, and from 0.01% to 0.96%, respectively.

Long-term debt at March 31, 2012, 2011 and 2010 is summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
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	¥110,000	**$ 1,341**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.387% to 2.49%, due from 2013 through 2041	**344,972**	334,970	274,968	**4,206**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.00% to 5.20%, due in installments from 2013 through 2021	**58,467**	66,618	61,832	**713**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.4675% to 2.36%, due in installments from 2013 through 2032	**245,100**	240,100	209,700	**2,989**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2013 through 2019	**3,960**	4,570	5,180	**48**
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2013 through 2032	**10,019**	8,475	7,397	**122**
Other	**15,728**	16,632	17,536	**191**
	788,247	781,366	686,614	**9,612**
Less current portion	**(103,314)**	(45,894)	(34,454)	**(1,259)**
	¥ 684,932	¥735,472	¥652,160	**$ 8,352**

The aggregate annual maturities of long-term debt subsequent to March 31, 2012 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥103,314	$1,259
2014	39,909	486
2015	46,518	567
2016	38,192	465
2017	64,310	784
2018 and thereafter	496,001	6,048
	¥788,247	$9,612

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, 2012, 2011 and 2010 was as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Lines of credit	**¥130,000**	¥100,000	¥100,000	**$1,585**
Credit utilized	**—**	—	—	**—**
Available credit	**¥130,000**	¥100,000	¥100,000	**$1,585**

10 Pledged Assets

Assets pledged at March 31, 2012 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	288	3
Land	190	2
Buildings and structures, net	17,290	210
	¥17,999	$219

The indebtedness secured by such collateral at March 31, 2012 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	3,350	40
	¥3,960	$48

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

11 Long-Term Payables

Long-term payables at March 31, 2012, 2011 and 2010 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:				
Variable interest portion, due in installments from 2013 through 2017	**¥108,897**	¥135,658	¥164,521	**$1,328**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2013 through 2052	**175,610**	187,321	187,860	**2,141**
Other	**6,126**	6,751	7,366	**74**
	290,635	329,732	359,748	**3,544**
Less current portion	**(40,854)**	(39,132)	(30,051)	**(498)**
	¥249,780	¥290,599	¥329,696	**$3,046**

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 average variable interest rates for the years ended March 31, 2012, 2011 and 2010 were 4.08%, 4.08% and 4.15%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2012 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥ 40,854	$ 498
2014	39,721	484
2015	38,124	464
2016	33,686	410
2017	30,829	375
2018 and thereafter	107,417	1,309
	¥290,635	$3,544

12 Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 40.69% for the years ended March 31, 2012, 2011 and 2010.

A reconciliation of the statutory tax rate and effective tax rates for the years ended March 31, 2012, 2011 and 2010 as a percentage of income before income taxes and minority interests was as follows:

	2012	2011	2010
Statutory tax rate	**40.69%**	40.69%	40.69%
Increase (decrease) in income taxes resulting from:			
Decrease in deferred tax assets due to change in tax rate	**19.59**	—	—
Reversal of valuation allowance	**4.53**	1.55	2.04
Per capita portion of inhabitants' taxes	**0.86**	1.16	1.64
Permanent non-deductible expenses	**0.52**	0.74	0.81
Other	**(0.27)**	(0.94)	(1.18)
Effective tax rates	**65.92%**	43.20%	44.00%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2012, 2011 and 2010 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Deferred tax assets:				
Accrued bonuses included in accrued expenses	¥ 13,495	¥ 14,101	¥ 13,490	$ 164
Accrued enterprise taxes included in accrued income taxes	1,932	1,636	1,396	23
Accrued retirement benefits	114,133	131,085	131,952	1,391
Unrealized gain on property, plant and equipment	8,358	7,951	7,674	101
Tax loss carryforwards	4,057	3,277	1,570	49
Other	27,542	29,248	26,100	335
Gross deferred tax assets	169,519	187,300	182,186	2,067
Valuation allowance	(10,681)	(8,299)	(7,282)	(130)
Total deferred tax assets	158,838	179,001	174,903	1,937
Deferred tax liabilities:				
Unrealized holding gain on securities	(398)	(278)	(751)	(4)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(12,556)	(14,410)	(14,780)	(153)
Gain on valuation of assets of consolidated subsidiaries	(1,320)	(1,443)	(1,443)	(16)
Other	(1,771)	(2,079)	(1,253)	(21)
Total deferred tax liabilities	(16,047)	(18,212)	(18,229)	(195)
Deferred tax assets, net	¥142,791	¥160,789	¥156,674	$1,741

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 1, 2012.

In line with these revisions, the Company and its consolidated subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.69% to 38.01% for temporary differences expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company and its consolidated subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.69% to 35.64% for temporary differences expected to be realized during the fiscal year beginning on April 1, 2015 and thereafter.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥15,670 million ($191 million), and income taxes – deferred (debit) increased by ¥15,726 million ($191 million) as of and for the year ended March 31, 2012.

13 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.

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation / amortization, accumulated impairment loss, and net book value of the leased assets as of March 31, 2012, 2011 and 2010, 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

	2012				2011			
	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**	**¥ 440**	**¥ —**	**¥1,963**	¥2,403	¥ 353	¥ —	¥2,050
Machinery, equipment and vehicles	**463**	**258**	**113**	**91**	539	283	113	143
Tools, furniture and fixtures	**891**	**804**	**—**	**86**	1,339	1,002	–	337
Software included in other assets	**14**	**12**	**—**	**1**	63	52	–	10
	¥3,772	**¥1,515**	**¥113**	**¥2,143**	¥4,347	¥1,691	¥113	¥2,542

Millions of yen

	2010			
	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value
Leased assets:				
Buildings and structures	¥2,403	¥ 266	¥ —	¥2,137
Machinery, equipment and vehicles	673	341	113	219
Tools, furniture and fixtures	1,806	1,032	—	773
Software included in other assets	118	104	—	13
	¥5,002	¥1,744	¥113	¥3,144

Millions of U.S. dollars

	2012			
	Acquisition costs	Accumulated depreciation / amortization	Accumulated impairment loss	Net book value
Leased assets:				
Buildings and structures	**$29**	**$ 5**	**$ —**	**$23**
Machinery, equipment and vehicles	**5**	**3**	**1**	**1**
Tools, furniture and fixtures	**10**	**9**	**—**	**1**
Software included in other assets	**0**	**0**	**—**	**0**
	$46	**$18**	**$ 1**	**$26**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2012, 2011 and 2010 totaled ¥317 million ($3 million), ¥416 million and ¥557 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. Reversal of accumulated impairment losses on the leased assets for the years ended March 31, 2012, 2011 and 2010 totaled ¥16 million ($0 million), ¥16 million and nil, respectively. Accumulated impairment losses on the leased assets as of March 31, 2012, 2011 and 2010 are ¥81 million ($0 million), ¥97 million and ¥113 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥ 189	$ 2
2014 and thereafter	2,067	25
	¥2,257	$27

Future minimum lease payments subsequent to March 31, 2012 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥ 1,342	$ 16
2014 and thereafter	19,462	237
	¥20,804	$253

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2012, 2011 and 2010 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
			2012			2011
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	**¥2,304**	**¥1,409**	**¥ 894**	¥2,455	¥1,132	¥1,322
Tools, furniture and fixtures	**1,175**	**874**	**300**	1,992	1,444	548
	¥3,480	**¥2,284**	**¥1,195**	¥4,447	¥2,577	¥1,870

			Millions of yen
			2010
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	¥3,308	¥1,330	¥1,978
Tools, furniture and fixtures	2,766	1,807	959
	¥6,075	¥3,137	¥2,937

			Millions of U.S. dollars
			2012
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	**$28**	**$17**	**$10**
Tools, furniture and fixtures	**14**	**10**	**3**
	$42	**$27**	**$14**

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2012, 2011 and 2010 were ¥448 million ($5 million), ¥648 million and ¥950 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2012, 2011 and 2010 computed by the straight-line method over the respective lease terms amounted to ¥400 million ($4 million), ¥577 million and ¥870 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2012 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥ 396	$ 4
2014 and thereafter	1,090	13
	¥1,487	$18

Future minimum lease receipts subsequent to March 31, 2012 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2013	¥ 376	$ 4
2014 and thereafter	3,460	42
	¥3,836	$46

14 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 retirement plan administered by a government agency and / or a defined contribution pension plan.

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, 2012, 2011 and 2010 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Retirement benefit obligation	**¥(345,082)**	¥(361,924)	¥(365,596)	**$(4,208)**
Plan assets at fair value	**6,656**	8,999	9,313	**81**
Unfunded retirement benefit obligation	**(338,425)**	(352,925)	(356,282)	**(4,127)**
Unrecognized net retirement benefit obligation at transition	**2,824**	4,088	4,906	**34**
Unrecognized actuarial loss	**19,541**	28,021	28,635	**238**
Unrecognized prior service cost	**29**	(1,308)	(1,541)	**0**
Net retirement benefit obligation	**(316,031)**	(322,122)	(324,281)	**(3,854)**
Prepaid pension cost	**844**	614	519	**10**
Accrued retirement benefits	**¥(316,876)**	¥(322,737)	¥(324,801)	**$(3,864)**

The components of retirement benefit expenses for the years ended March 31, 2012, 2011 and 2010 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Service cost	**¥14,937**	¥14,828	¥15,189	**$182**
Interest cost	**7,148**	7,210	7,391	**87**
Expected return on plan assets	**(175)**	(182)	(174)	**(2)**
Amortization of net retirement benefit obligation at transition	**817**	817	31,462	**9**
Amortization of actuarial loss	**8,201**	7,328	7,530	**100**
Amortization of prior service cost	**1,041**	463	82	**12**
Expense recorded at certain consolidated subsidiaries on change in measurement of retirement benefit obligation from the simplified method to the principle method	**301**	100	740	**3**
Retirement benefit expenses	**32,273**	30,566	62,220	**393**
Gain on transfer to defined contribution pension plan	**(848)**	—	—	**(10)**
	¥31,424	¥30,566	¥62,220	**$383**

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

	2012	2011	2010
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%

15 Contingent Liabilities

At March 31, 2012, 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 ¥9,660 million ($117 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.

16 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 ($138 million) at March 31, 2012, 2011 and 2010.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2012, 2011 and 2010 are summarized as follows:

				Number of shares
	April 1, 2011	Increase	Decrease	March 31, 2012
Common stock	2,000,000	198,000,000	—	**200,000,000**
Treasury stock	63,584	6,294,915	—	**6,358,499**

				Number of shares
	April 1, 2010	Increase	Decrease	March 31, 2011
Common stock	2,000,000	—	—	2,000,000
Treasury stock	63,584	—	—	63,584

				Number of shares
	April 1, 2009	Increase	Decrease	March 31, 2010
Common stock	2,000,000	—	—	2,000,000
Treasury stock	63,584	—	—	63,584

Based on a resolution at a meeting of the Board of Directors, on July 1, 2011, the Company made a 1-for-100 stock split of common stock owned by shareholders registered or recorded on the shareholders list as of June 30, 2011, and the Company also adopted a lot trading system, whereby one trading lot was set at 100 shares. As a result, the number of issued common stock increased by 198,000,000. The increases in treasury stock during the year ended March 31, 2012 were due to the stock split and purchases of shares of less than one trading unit.

17 Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥7,288 million ($88 million), ¥6,339 million and ¥6,480 million for the years ended March 31, 2012, 2011 and 2010, respectively.

18 Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the year ended March 31, 2012.

	Millions of yen	Millions of U.S. dollars
	2012	2012
Net unrealized holding gain on securities:		
Amount arising during the year	¥447	$5
Reclassification adjustments for loss included in net income	(9)	(0)
Before tax effect	437	5
Tax effect	(121)	(1)
Total	316	3
Net unrealized deferred loss on hedging instruments:		
Amount arising during the year	(22)	(0)
Before tax effect	(22)	(0)
Tax effect	8	0
Total	(14)	(0)
The Company's share of other comprehensive income of affiliates accounted for by the equity method:		
Amount arising during the year	32	0
Other comprehensive income, net	¥334	$4

19 Amounts per Share

Amounts per share at March 31, 2012, 2011 and 2010 and for the years then ended were as follows:

	Yen			U.S. dollars
	2012	2011	2010	2012
Net assets	¥3,632.41	¥3,557.13	¥3,455.68	$ 44
Net income	152.29	180.66	128.37	1
Cash dividends	90.00	8,000.00	7,000.00	1

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, 2012, 2011 and 2010 since the Company had no potentially dilutive stock at March 31, 2012, 2011 and 2010.

As described in Note 16, on July 1, 2011, the Company made a 1-for-100 share split.

As described in Note 2 (1), effective the year ended March 31, 2012, the Company adopted "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2 revised on June 30, 2010), "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4 revised on June 30, 2010), and "Practical Solution on Accounting for Earnings Per Share" (ASBJ Practical Issues Task Force (PITF) No. 9 revised on June 30, 2010).

In accordance with these accounting standards, the above per share information at March 31, 2012, 2011 and 2010 and for the years then ended was calculated on the assumption that the stock split had been executed on April 1, 2009.

The following information on amounts per share at March 31, 2011 and 2010 and for the years then ended were calculated based on the assumption that these accounting standards had not been adopted:

	Yen	
	2011	2010
Net assets	¥355,712.84	¥345,568.31
Net income	18,066.01	12,837.31

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.

20 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-eight years from March 31, 2012. 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 thirty nine years from March 31, 2012. Some of these payables have variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivatives, the Group enters into currency swap and interest-rate swap contracts to reduce the risk arising from the fluctuation in exchange rates and interest rates on financial liabilities 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 currency swap and interest-rate swap contracts to reduce the risk arising from the fluctuation in exchange rates and interest rates on financial liabilities. 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, 2012, 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 20).

	Millions of yen			Millions of yen		
	2012			2011		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
Cash	**¥ 50,619**	**¥ 50,619**	**¥ —**	¥ 79,742	¥ 79,742	¥ —
Notes and accounts receivable	**15,504**	**15,504**	**—**	16,734	16,734	—
Accrued fares (component of notes and accounts receivables)	**27,280**	**27,280**	**—**	26,689	26,689	—
Other accounts receivable (component of notes and accounts receivables)	**46,256**	**46,256**	**—**	47,064	47,064	—
Investments in securities:						
Other securities	**7,308**	**7,308**	**—**	6,998	6,998	—
Liabilities:						
Short-term loans	**(27,562)**	**(27,562)**	**—**	(17,515)	(17,515)	—
Notes and accounts payable	**(46,205)**	**(46,205)**	**—**	(51,207)	(51,207)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	**(92,380)**	**(92,380)**	**—**	(134,824)	(134,824)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	**(22,631)**	**(22,631)**	**—**	(15,450)	(15,450)	—
Deposits (component of deposits and advances received)	**(70,022)**	**(70,022)**	**—**	(55,467)	(55,467)	—
Bonds (component of long-term debt, including current portion)	**(454,972)**	**(490,161)**	**(35,189)**	(444,970)	(466,707)	(21,737)
Long-term loans (component of long-term debt, including current portion)	**(323,255)**	**(332,844)**	**(9,589)**	(327,920)	(332,863)	(4,943)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	**(290,444)**	**(409,342)**	**(118,898)**	(329,510)	(445,817)	(116,307)
Other long-term payables (component of long-term payables, including current portion)	**(190)**	**(202)**	**(11)**	(222)	(235)	(13)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	**(366)**	**(366)**	**—**	(343)	(343)	—

	Millions of yen		
	2010		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash	¥ 51,314	¥ 51,314	¥ —
Notes and accounts receivable	14,282	14,282	—
Accrued fares (component of notes and accounts receivables)	22,714	22,714	—
Other accounts receivable (component of notes and accounts receivables)	42,038	42,038	—
Investments in securities:			
Other securities	8,543	8,543	—
Liabilities:			
Short-term loans	(12,932)	(12,932)	—
Notes and accounts payable	(47,999)	(47,999)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	(102,385)	(102,385)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	(13,793)	(13,793)	—
Deposits (component of deposits and advances received)	(52,150)	(52,150)	—
Bonds (component of long-term debt, including current portion)	(384,968)	(404,502)	(19,534)
Long-term loans (component of long-term debt, including current portion)	(294,249)	(299,927)	(5,678)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	(359,494)	(491,197)	(131,702)
Other long-term payables (component of long-term payables, including current portion)	(253)	(271)	(18)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(231)	(231)	—

	Millions of U.S. dollars		
	2012		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash	$ 617	$ 617	$ —
Notes and accounts receivable	189	189	—
Accrued fares (component of notes and accounts receivables)	332	332	—
Other accounts receivable (component of notes and accounts receivables)	564	564	—
Investments in securities:			
Other securities	89	89	—
Liabilities:			
Short-term loans	(336)	(336)	—
Notes and accounts payable	(563)	(563)	—
Other accounts payable (component of notes and accounts payable and accrued expenses)	(1,126)	(1,126)	—
Accrued income taxes (component of accrued income taxes and accrued expenses)	(275)	(275)	—
Deposits (component of deposits and advances received)	(853)	(853)	—
Bonds (component of long-term debt, including current portion)	(5,548)	(5,977)	(429)
Long-term loans (component of long-term debt, including current portion)	(3,942)	(4,059)	(116)
Long-term payables for purchase of railway facilities (component of long-term payables, including current portion)	(3,542)	(4,991)	(1,449)
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 currency swap or 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.

Derivative transactions
Refer to Note 21.

2 Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2012, 2011 and 2010 are summarized as follows:

	Millions of yen			Millions of U.S. dollars
	2012	2011	2010	2012
Investments in securities				
Unlisted stocks	¥51,127	¥53,376	¥50,738	$623
Other	17	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, 2012, 2011 and 2010 is as follows:

	Millions of yen					
	2012			2011		
	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	¥ 37,938	¥ —	¥ —	¥ 70,419	¥ —	¥ —
Notes and accounts receivable:	15,239	265	—	16,276	457	—
Accrued fares (component of notes and accounts receivables)	27,280	—	—	26,689	—	—
Other accounts receivable (component of notes and accounts receivables)	46,093	162	—	46,842	222	—
Investments in securities:						
Other marketable securities with maturities (national government bonds)	—	37	152	—	37	116
Other marketable securities with maturities (corporate bonds)	6	25	6	6	25	12
Total	¥126,558	¥490	¥158	¥160,234	¥741	¥128

	Millions of yen		
	2010		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash	¥ 41,607	¥ —	¥ —
Notes and accounts receivable:	14,243	39	—
Accrued fares (component of notes and accounts receivables)	22,714	—	—
Other accounts receivable (component of notes and accounts receivables)	42,035	2	0
Investments in securities:			
Other marketable securities with maturities (national government bonds)	—	37	—
Other marketable securities with maturities (corporate bonds)	6	25	18
Total	¥120,606	¥103	¥ 19

	Millions of U.S. dollars		
	2012		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash	$ 462	$—	$—
Notes and accounts receivable:	185	3	—
Accrued fares (component of notes and accounts receivables)	332	—	—
Other accounts receivable (component of notes and accounts receivables)	562	1	—
Investments in securities:			
Other marketable securities with maturities (national government bonds)	—	0	1
Other marketable securities with maturities (corporate bonds)	0	0	0
Total	$1,543	$5	$ 1

4 The redemption schedules for long-term debt and long-term payables are disclosed in Note 9 "Short-Term Loans and Long-Term Debt" and Note 11 "Long-Term Payables" in the Notes to Consolidated Financial Statements.

21 Derivative Transactions

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2012 and 2011 were as follows:

Millions of yen

Method of hedge accounting	Description of transaction	Hedged items	2012 Notional amount	2012 Notional amount (over 1 year)	2012 Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps				
	Pay fixed / Receive floating	Long-term loans	**¥15,000**	**¥ —**	(*1)
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forecasted transaction)	**5,098**	**—**	**¥(331)** (*2)
	U.S. dollars		**2,585**	**—**	**(15)** (*2)
	Other		**808**	**—**	**(19)** (*2)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable	**434**	**—**	(*3)
	U.S. dollars		**323**	**—**	(*3)
	Other		**74**	**—**	(*3)
Allocation method of forward foreign exchange contracts	Currency swaps included in interest-rate conversion				
	Pay yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans	**3,100**	**3,100**	(*3)
			¥27,425	**¥3,100**	**¥(366)**

Millions of yen

Method of hedge accounting	Description of transaction	Hedged items	2011 Notional amount	2011 Notional amount (over 1 year)	2011 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 (Forecasted 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	Other accounts payable	406	—	(*3)
	U.S. dollars		417	—	(*3)
	Other		73	—	(*3)
			¥25,737	¥15,000	¥(343)

			Millions of U.S. dollars		
			2012		
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	$ 182	$ —	(*1)
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable (Forecasted transaction)	62	—	$(4) (*2)
	U.S. dollars		31	—	(0) (*2)
	Other		9	—	(0) (*2)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Other accounts payable	5	—	(*3)
	U.S. dollars		3	—	(*3)
	Other		0	—	(*3)
Allocation method of forward foreign exchange contracts	Currency swaps included in interest-rate conversion				
	Pay yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans	37	37	(*3)
			$ 334	$ 37	$(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 hedge accounting at March 31, 2010.

There were no derivative transactions not qualifying for hedge accounting at March 31, 2012, 2011 and 2010.

22 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, retail business and real estate.

The Company and its consolidated subsidiaries are composed of three main business segments and those reportable segments are "Transportation," "Retail business" and "Real estate business." "Transportation" involves railway, bus, and ferry services. "Retail business" 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 the Company and its consolidated subsidiaries and are mainly recorded at the market prices.

Reportable segment information for the years ended March 31, 2012, 2011 and 2010 is outlined as follows:

Millions of yen

2012	Reportable segments						
	Transportation	Retail business	Real estate business	Other businesses	Subtotal	Elimination and corporate	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 839,072	¥233,542	¥ 93,576	¥121,488	¥1,287,679	¥ —	¥1,287,679
Intersegment operating revenues or transfers	17,364	47,918	19,829	173,245	258,358	(258,358)	—
Total	¥ 856,436	¥281,461	¥113,406	¥294,733	¥1,546,037	¥(258,358)	¥1,287,679
Segment income	¥ 76,736	¥ (2,996)	¥ 25,989	¥ 10,376	¥ 110,106	¥ (306)	¥ 109,799
Segment assets	¥1,919,576	¥137,809	¥389,750	¥300,368	¥2,747,504	¥(104,510)	¥2,642,994
Other items:							
Depreciation and amortization	¥ 139,621	¥ 6,055	¥ 19,456	¥ 4,196	¥ 169,330	¥ —	¥ 169,330
Investment to affiliates accounted for by the equity method	18,949	—	—	19,010	37,960	—	37,960
Increase in tangible and intangible fixed assets	143,075	22,240	41,747	3,797	210,861	—	210,861

Millions of yen

	2011						
	Reportable segments						
	Transportation	Retail business	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
Investment in 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	Retail business	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
Investment in 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

	2012						
	Reportable segments						
	Transportation	Retail business	Real estate business	Other businesses	Subtotal	Elimination and corporate	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	**$10,232**	**$2,848**	**$1,141**	**$1,481**	**$15,703**	**$ —**	**$15,703**
Intersegment operating revenues or transfers	**211**	**584**	**241**	**2,112**	**3,150**	**(3,150)**	**—**
Total	**$10,444**	**$3,432**	**$1,383**	**$3,594**	**$18,854**	**$(3,150)**	**$15,703**
Segment income	**$ 935**	**$ (36)**	**$ 316**	**$ 126**	**$ 1,342**	**$ (3)**	**$ 1,339**
Segment assets	**$23,409**	**$1,680**	**$4,753**	**$3,663**	**$33,506**	**$(1,274)**	**$32,231**
Other items:							
Depreciation and amortization	**$ 1,702**	**$ 73**	**$ 237**	**$ 51**	**$ 2,065**	**$ —**	**$ 2,065**
Investment in affiliates accounted for by the equity method	**231**	**—**	**—**	**231**	**462**	**—**	**462**
Increase in tangible and intangible fixed assets	**1,744**	**271**	**509**	**46**	**2,571**	**—**	**2,571**

Segment income represents operating income in the consolidated statements of income.

Information on each product and service was omitted because it was same as that of the reportable segment information.

Geographical information and information on sales to major customers was omitted because there were no items that meet their disclosure criteria.

Information on loss on impairment of fixed assets per each reportable segment was omitted because the amounts were immaterial.

Information on amortization of goodwill and negative goodwill, the balances and gain on recognition of negative goodwill was omitted because the amounts were immaterial.

23 Subsequent Events

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, was to be approved at a meeting of the shareholders of the Company to be held on June 22, 2012:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥50 = U.S.$0 per share)	¥9,686	$118

ERNST & YOUNG

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Independent Auditor's Report

The Board of Directors
West Japan Railway Company

We have audited the accompanying consolidated financial statements of West Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of West Japan Railway Company and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

June 21, 2012
Osaka, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited