Management's Discussion and Analysis of Operations

Consolidated Basis

Results of Operations

For fiscal 2015 (year ended March 31, 2015), operating revenues rose ¥19.3 billion, or 1.5% year on year, to ¥1,350.3 billion, as both the Shinkansen and conventional lines enjoyed strong traffic owing to various measures implemented on the back of solid economic conditions and the new consolidation of DAITETSU KOGYO Co., LTD, and another company.

Operating expenses increased ¥14.1 billion, or 1.2% year on year, to ¥1,210.5 billion due to an increase in preparation costs for the opening of the Hokuriku Shinkansen Line and the impacts from the new consolidation of DAITETSU KOGYO and another company. Operating income, therefore, increased ¥5.1 billion, or 3.8% year on year, to ¥139.7 billion.

Net non-operating income (loss) improved by ¥3.8 billion year on year, to record a ¥17.7 billion loss, because of factors such as lower interest expense following the repayment of long-term debt.

Net extraordinary income was ¥700 million, an improvement of ¥1.9 billion compared to the previous fiscal year. This was attributed to the booking of negative goodwill from the new consolidation of DAITETSU KOGYO and another company, despite restoration costs incurred for damages sustained during heavy rainfall in Yamaguchi and Shimane prefectures during fiscal 2014.

Net income rose ¥1.0 billion, or 1.6%, year on year, to ¥66.7 billion.

Factors Affecting Revenues

Railway transportation accounts for the bulk of revenues in the transportation operations segment. Railway transportation revenues depend mostly on numbers of passengers served, and are, therefore, affected by numerous factors such as competition from airlines and other modes of transportation, competition from rival railway companies, economic conditions, and the falling birthrate and aging population. We believe railway passengers make transportation decisions based on considerations of safety and reliability, to begin with, but also travel times, the comprehensiveness of the railway network, fares, and levels of comfort.

Shinkansen revenues are determined mainly by the numbers of business and leisure passengers served, and are therefore, affected by factors such as economic conditions, competition with airlines, and the number of inbound visitors.

In comparison, the Urban Network serves mainly work and school commuters, so its revenues, we believe, are much less affected by economic conditions. Urban Network revenues, however, are still susceptible to the falling birthrate, aging population, urbanization, and other demographic changes. For some of JR-West's other conventional lines, intercity transport revenues are affected by economic conditions and competition with intercity bus services and private automobiles. Local line revenues, meanwhile, are subject to the impacts of competition with private automobiles, local economic conditions, and demographic changes.

Retail business segment revenues come mainly from department stores, sales of goods and food services. They are affected by economic conditions, and competition from other department stores, retailers, and restaurants. In addition, most of the businesses in this segment operate in or near train stations, so they are also subject to the impacts of railway traffic volume. That said, however, train stations enjoy relatively stable usage, so we believe the segment's revenues are less affected by these factors than are the operations of other companies. Other factors affecting the segment's revenues include opening of new stores and closing of existing stores.

In the real estate business segment, revenues come mainly from the leasing of station and nearby facilities. These revenues are affected by economic conditions, but the relatively stable customer traffic at stations, and tenant preference for stations and nearby office buildings because of their convenience, means that economic conditions are less of a concern than they are for other companies in the same business. Most of the Group's leasing contracts call for the payment of fixed rent and rent based on sales, so segment revenues change in response to tenant sales. The introduction of popular stores is important for increasing the sales-dependent portion of rent, as well as boosting the customer-drawing power of stations and shopping centers. The remodeling of store interiors is an important element for the latter.

The other businesses segment's revenues come mainly from hotel and travel agency operations. Hotel operation revenues are affected by economic conditions, room rates, competition from other hotels, and the number of inbound visitors. Revenues for travel agency operations, meanwhile, are affected mainly by competition from other travel agencies and factors, like economic conditions and terrorism, that could discourage travel. In addition to hotel and travel agency operations, the other businesses segment includes construction, advertising, and other operations, most of which share the common purposes of strengthening the customer base for the mainstay railway operations, and enhancing station and other facilities.

Factors Affecting Expenses

Due to the age structure of its workforce, and other factors, the Company is currently experiencing employee retirements at elevated levels, but, through recruitment and other measures, has secured the number of personnel needed to conduct business operations. For fiscal 2015, personnel costs totaled ¥233.0 billion.

As for non-personnel costs, the Company is working to achieve cost reductions through structural measures. Railway operations are characterized by (i) ownership of a large amount of facilities and equipment entailing relatively high maintenance costs to ensure safety and (ii) a high proportion of fixed costs, which are not linked to revenues. The Company, therefore, with safety as its highest priority, is striving to cut costs through steps like the introduction of rolling stock and equipment that are easily maintained, mechanization, and improvement of existing infrastructure. At the same time, however, the Company fully appreciates the weight of its responsibility for the accident on the Fukuchiyama Line and is drawing upon all of its capabilities to build a railway that assures our customers of its safety and reliability. Elevated costs for enhancing safety, therefore, are expected to be incurred for the foreseeable future. It is also expected that enhancing competitiveness against other transportation modes will entail additional costs for purposes like raising service levels, introducing IT for promoting sales, and increasing outsourcing to improve operational efficiency.

Furthermore, JR-West also foresees an increase in costs attributed to electricity price hikes.

Regarding railway usage charges, JR-West leases the JR Tozai Line from Kansai Rapid Railway Co., Ltd. Since fiscal 2005, the annual amount of the railway usage charge has been renegotiated every three years and set after considering interest rate changes and other factors. As a result, railway usage charges have been reduced from fiscal 2012 onward. For the fiscal year under review, expenses paid were approximately ¥15.2 billion.

Among non-operating expenses, interest expense is a major factor. The JR-West Group pays close attention to the levels of its total long-term liabilities and total interest expense with the aim of preserving the stability of operations. For fiscal 2015, the Group's interest expense declined ¥2.1 billion, to ¥25.8 billion, as a result of the repayment of long-term debt.

Cash Flows

Net cash provided by operating activities decreased ¥14.1 billion year on year to ¥223.6 billion, due to factors such as a decrease in accounts payable - other.

Net cash used in investing activities increased ¥47.5 billion year on year to ¥212.9 billion because of an increase in outlays for the acquisition of property, plant and equipment.

Net cash realized from financing activities increased ¥49.5 billion year on year to ¥1.6 billion due to factors such as an increase in corporate bond issuances.

As a result, cash and cash equivalents as of March 31, 2015 amounted to ¥85.3 billion, up ¥12.3 billion from the end of the previous fiscal year.

Capital Demand and Capital Expenditures

In fiscal 2015, the JR-West Group undertook capital expenditures totaling ¥248.0 billion, of which the transportation operations segment accounted for ¥197.7 billion, the retail business segment ¥10.3 billion, the real estate business segment ¥30.2 billion, and the other businesses segment ¥9.7 billion. Capital expenditures in the transportation operations segment consisted mainly of railroad infrastructure, primarily for safety enhancements, and purchases of new rolling stock to replace aged rolling stock. The Group's capital expenditures in the retail, real estate, and other businesses segments were mainly for construction of new facilities and renovation of aged facilities.

The JR-West Group fully appreciates the weight of its responsibility for the accident that occurred on the Fukuchiyama Line and is drawing upon all of its capabilities to build a railway that assures our customers of its safety and reliability. All operational safety equipment and other infrastructure-based initiatives necessary for further enhancing safety are being taken and consideration of various other measures to bolster safety will continue.

Liquidity and Financing

The JR-West Group receives substantial amounts of cash on a daily basis mainly from the transportation operations segment, and believes it has secured a sufficient level of liquid assets.

At the same time, however, the Group recognizes that improving capital efficiency is extremely important for business management. Beginning in October 2002, therefore, the Group introduced a cash management service (CMS) to ensure effective utilization of Group funds.

Regarding financing, the JR-West Group procures funds for the portion of repayments of existing debt, capital expenditures, and other expenses that cannot be covered by the Group's cash flows. The Group makes determinations on 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 needs, the 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.

Operational and Other Risk Information

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 24, 2015. 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

If an accident were to occur in the transportation business it could jeopardize customers' lives and result in serious damages to property, and in turn adversely affect the management of the Company.

With its core business railway operations, the Company recognizes that its most important task is to provide high quality, highly reliable and safe transportation services.

However, on April 25, 2005, an extremely serious accident occurred on the Fukuchiyama Line between Tsukaguchi and Amagasaki stations. Resolving that such an accident would never again occur, the Company formulated a new Corporate Philosophy, which expresses its vision and its sense of values as a company, and a new Safety Charter, which defines its fundamental safety policies. It has since implemented a series of measures to realize this Corporate Philosophy and Safety Charter. Moreover, the Company has steadily carried out measures in response to 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 will steadily achieve higher levels of safety through the "continual effort to realize safe, reliable transport service," and by "increasing levels of risk assessment," "increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life," and moving forward with "investment in safety," all of which are high priorities and have been set forth in the "Safety Think-and-Act Plan 2017" inaugurated in March 2013. The Company is also working to establish a safety management system in accordance with its "Railway Safety Management Manual," created based on the revised Railway Business Act, which came into effect in 2006.

2 Relating to Legal Matters in Railway Operations

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

Under the Railway Business Law, railway operators are required to obtain the permission of the Ministry of Land, Infrastructure, Transport and Tourism (hereinafter "MLIT") for each type of line and railway business operated (article 3). Railway operators are also required to receive approval from 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 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, 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 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. 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 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.

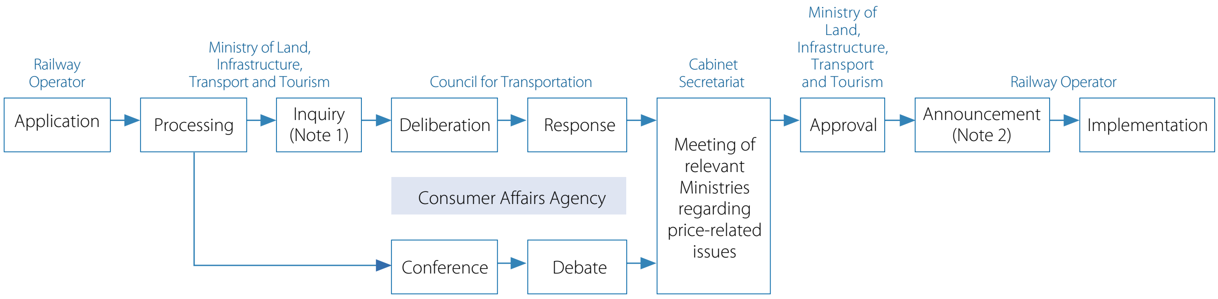
3 Relating to Establishment of and Changes to Fares and Surcharges

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 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 MLIT is as follows.



Notes: 1 This procedure is pursuant to article 64, 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 MLIT.

2 Under paragraph 2, Article 3 of the Railway Operation Act stipulates that at least 7 days public notice must be given for any increment in fares or other conditions of transportation.

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 and April 2014).

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 fare 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 advance 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 MLIT is as follows:

(a) 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.

Operational and Other Risk Information

(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 (Note 1) + operational return
- operational return = assets utilized in railway business operations (rate base) × operational return rate
- assets utilized in railway business operations = railway business operations fixed assets + construction in progress + deferred assets + working capital (Note 2)
- operational return rate = equity ratio (Note 3) × return rate on equity (Note 4) + borrowed capital ratio (Note 3) × return rate on borrowed capital (Note 4)

Notes: 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 MLIT, railway operators can set or change fares and surcharges or other charges within the upper limits approved. However, 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-Kanazawa), 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 Kanazawa–Tsuruga), the Hokkaido Shinkansen Line (between Shin-Aomori–Sapporo), and the Kyushu Shinkansen Line (Nagasaki route between Takeo Onsen–Nagasaki).

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 the cost burden by JR companies would be usage fees and other charges within the range of their expected benefits
- December 2000
  (arrangement between the national government and ruling parties) Ruling on new segments for start of construction, and reviews of development standards and periods
- December 2004
  (arrangement between the national government and ruling parties) Ruling on new segments for start of construction, and reviews of development standards and periods
- 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 fiscal 2015)

Notes: 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 Kansai 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.

- January 2015
(arrangement between the national government and ruling parties) Confirmation of future policies regarding the development of Shinkansen lines

  Details of the arrangement made by the national government and ruling parties regarding the Hokuriku Shinkansen Line in January 2015
  The Hokuriku Shinkansen Line (between Kanazawa–Tsuruga) will aim for completion and opening by the end of fiscal 2023, which is three years ahead of the initial plan of fiscal 2026.

Construction and Opening of 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–Kurobe-Unazukionsen 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
- March 2015
Nagano–Kanazawa segment opened

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 loan fees for the Joetsu Myoko–Kanazawa section of the Hokuriku Shinkansen Line that opened in March 2015 are ¥8.0 billion per year. The Company has determined that this is a reasonable amount as a result of taking the extent of JR-West's benefits into consideration. For segments planned to be opened in the future, loan fees will be determined based on discussions about the extent of JR-West's benefits prior to the opening.

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, MLIT confirmed the intentions to the Company regarding agreement for commencement of construction of the segment between the Hakusan car maintenance center and Tsuruga and 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 Kanazawa 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 at an early stage. However, for the time being, we have informed 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.

In the January 2015 government and ruling party agreement, the Hokuriku Shinkansen Line (between Kanazawa–Tsuruga) will aim for completion and opening by the end of fiscal 2023, which is three years ahead of the initial plan of fiscal 2026. JR-West believes that solid forward progress will be

Operational and Other Risk Information

made toward the opening of the entire segment up to Osaka. However, the Company has moved forward with the development of GCTs for the opening of Tsuruga scheduled for the end of fiscal 2026, but by moving the opening ahead to the end of fiscal 2023, there will not be adequate development time, which means GCTs will not be completed in time. In this case, measures will be required for facilitating the smooth transfer of trains at Tsuruga Station.

Even if segments to undergo construction are extended with the aim of starting services on all lines, 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.

According to the Population Projections by Region, released by the National Institute of Population and Social Security Research in March 2013, populations in all regional blocks other than the Southern Kanto, Chubu, and Kinki blocks were declining by 2005. The Kinki block joined the group of blocks with declining populations from 2005 to 2010, and all regional blocks are projected to be experiencing population declines by 2020. The working-age population and its percentage of the total are already declining in each prefecture, and the elderly population is projected to continue increasing through 2020, when it will exceed 30% of the total population in most regions.

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 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 stemming from the improved convenience of flying due to 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 series Shinkansen rolling stock, increasing departures of its Nozomi and Mizuho Shinkansen services, and improving online reservation services, such as the "EX-IC service" and the "e5489" on the Shinkansen Line, while also developing attractively priced products in response to actions by airline companies, such as the "Super Haya-toku" early discount tickets. Additionally, the Company is improving the competitiveness of the Shinkansen by 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. The timetable for the evening service on the Osaka Loop Line has been aligned to make it easier to use while one additional special rapid service train is being operated between Yasu and Osaka during the morning commute on the Biwako and JR Kyoto lines in order to improve convenience for passengers commuting to work or school.

In addition, the Company 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 is contributing to the invigoration of communities by enhancing the quality of the railway, expanding non-transportation operations, and promoting new business creation. To that end we are deepening interaction and ties with communities, and working together as a corporate group to develop businesses with close ties to areas.

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.

Consolidated long-term debt at March 31, 2015, stood at ¥1,004.2 billion (including the current portion thereof), or 2.4% higher than the previous fiscal year. Interest payments for the fiscal years ended March 31, 2013, 2014, and 2015, were ¥30.4 billion, ¥28.0 billion, and ¥25.8 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 (Osaka Higashi Line)

1. 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)
- July 2013
  Approval to change the basic business plan with regard to new station openings (between JR Nagase and Shin-Kami)

2. 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: 14 (including Shin-Osaka and Kyuhoji stations)
(e) Total construction cost: Approx. ¥120 billion (excluding new stations)
(f) Planned construction period: Fiscal 1998 to fiscal 2019 (Segment between Hanaten–Kyuhoji completed in fiscal 2008)

Operational and Other Risk Information

3. 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 Kansai 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.

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.

The Company is working hard in terms of disaster preparedness and disaster reduction measures to minimize damages caused by serious natural disasters in the future that will impact its business. Specifically, the Company has rolled out earthquake early detection and warning systems for the Sanyo Shinkansen and earthquake emergency news flash systems that also include conventional lines. The Company is steadily carrying out earthquake resistance reinforcement on its elevated tracks, bridges and support pillars to prepare for an earthquake in the Nankai Trough, which is expected to occur in the future. The Company is also making efforts to facilitate speedy evacuations in case of a tsunami, which includes practical drills, publication of the Tsunami Evacuation Guidance Manual and installation of evacuation route signage. Furthermore, based on the derailment of the Shinkansen during the Mid-Niigata Prefecture Earthquake in October 2004, the Shinkansen Derailment Countermeasures Committee was set up by the government to review earthquake countermeasures for the Shinkansen and promote the development of related technologies. The findings of this committee are helping the Company to develop facilities that will prevent the derailment of trains in operating during an earthquake, which in turn will prevent the possible spread of damage. In September 2013, a new indicator was added to the conventional line operation regulations for earthquakes, changing the handling of such situations to prioritize safety above all else.

Meanwhile, in recent years there has been a sharp increase in damages from torrential rainfall that occurs locally over a short period of time. Therefore, in March 2015, partial revisions were made to regulatory values and rainfall indicators in our operating regulations during rainfall on conventional lines in consideration of the changes in rainfall types in recent years and past damages caused by rainfall.

The Company is also developing other measures to prevent, to the greatest possible extent, serious damage to the Group's operations due to occurrences such as heavy rainfall and landslides.

As another measure 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 should occur in West Japan, such as Severe Acute Respiratory Syndrome (SARS), which saw an outbreak in 2003, or the extremely dangerous swine influenza virus, it is feared that this would have impacts such as limiting economic activities and causing passengers to refrain from taking trips. There is a danger that such an epidemic—if it entails the infection of a significant portion of the Company's workforce—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.

The Group is taking necessary measures to provide appropriate levels of transportation during an outbreak of pandemic influenza, while working closely with government affiliated institutions and local governments, in accordance with the Act on Special Measures for Preparedness and Response against Pandemic Influenza and New Infectious Disease enacted in April 2013.

12 Relating to Compliance

The Company, in conducting its business activities, is subject to the Companies Act of Japan, 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.

In 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 MLIT to conduct fact-finding inquiries, implement remediation measures, including preventive measures based on the results of such inquiries, and make a report thereof.

In November 2009, the Company submitted to 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 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. In regard to 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, the Kobe District Court handed down a judgment of "not guilty" on January 11, 2012, and the decision was finalized in the same month.

In addition, pursuant to the ruling of the Kobe No. 1 Committee for the Inquest of Prosecution, on April 23, 2010, designated attorneys serving as public prosecutors indicted three former Presidents and Representative Directors of the Company—Masataka Ide, Shojiro Nan-ya, and Takeshi Kakiuchi. On September 27, 2013, the Kobe District Court issued a verdict of "not guilty" and on March 27, 2015, the Osaka High Court also issued a verdict of "not guilty." However, the designated attorneys serving as public prosecutor appealed this ruling on April 6, 2015.

The Company will continue its efforts to sincerely listen to the opinions of the victims of the 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.

Financial Statements

Consolidated Balance Sheet

West Japan Railway Company and its consolidated subsidiaries
As of March 31, 2015 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2015	2014	2015
Assets			
Current assets:			
Cash and deposits (Notes 3, 10 and 20)	¥ 53,592	¥ 55,203	$ 446
Short-term investments (Notes 3, 4 and 20)	32,000	18,000	266
Notes and accounts receivable (Note 20):			
Unconsolidated subsidiaries and affiliates	953	2,046	7
Trade	151,155	116,560	1,259
Less allowance for doubtful accounts	(770)	(638)	(6)
Inventories (Note 5)	57,755	44,215	481
Income taxes refundable (Note 12)	43	338	0
Deferred income taxes (Note 12)	18,475	18,622	153
Prepaid expenses and other current assets	50,339	44,067	419
Total current assets	363,544	298,414	3,029
Investments:			
Unconsolidated subsidiaries and affiliates (Notes 4, 6 and 20)	42,848	52,909	357
Other securities (Notes 4, 10 and 20)	18,875	14,449	157
Total investments	61,723	67,359	514
Property, plant and equipment, at cost (Notes 7, 8, 10 and 13):			
Land	671,123	659,947	5,592
Buildings and structures	3,099,656	3,110,627	25,830
Machinery, equipment and vehicles	1,352,075	1,293,092	11,267
Tools, furniture and fixtures	133,354	131,016	1,111
Construction in progress	61,453	75,521	512
	5,317,663	5,270,203	44,313
Less accumulated depreciation	(3,153,418)	(3,135,004)	(26,278)
Property, plant and equipment, net	2,164,245	2,135,199	18,035
Deferred income taxes (Note 12)	134,591	128,520	1,121
Asset for retirement benefits (Note 14)	2,592	1,469	21
Other assets	59,774	56,927	498
Total assets (Note 22)	¥ 2,786,470	¥ 2,687,890	$ 23,220

	Millions of yen 2015	2014	Millions of U.S. dollars (Note 1) 2015
Liabilities and net assets			
Current liabilities:			
Short-term loans (Notes 9 and 20)	**¥ 16,335**	¥ 25,754	**$ 136**
Current portion of long-term debt (Notes 9, 10 and 20)	**48,645**	46,572	**405**
Current portion of long-term payables (Notes 11 and 20)	**33,645**	38,104	**280**
Notes and accounts payable (Notes 10 and 20):			
Unconsolidated subsidiaries and affiliates	**2,663**	8,242	**22**
Trade	**176,097**	163,133	**1,467**
Prepaid railway fares received	**38,412**	50,997	**320**
Deposits and advances received (Note 20)	**95,519**	99,858	**795**
Accrued expenses (Note 20)	**31,870**	29,334	**265**
Income taxes payable (Notes 12 and 20)	**18,584**	27,248	**154**
Accrued bonuses for employees	**37,166**	35,921	**309**
Provision for customer point programs	**1,566**	1,418	**13**
Deferred income taxes (Note 12)	**283**	287	**2**
Other current liabilities	**26,240**	12,645	**218**
Total current liabilities	**527,032**	539,520	**4,391**
Long-term debt (Notes 9, 10 and 20)	**791,775**	732,789	**6,598**
Long-term payables (Notes 11 and 20)	**138,205**	171,891	**1,151**
Liability for retirement benefits (Note 14)	**375,285**	326,823	**3,127**
Provision for environmental safety measures	**9,627**	10,204	**80**
Provision for unutilized gift tickets	**2,551**	2,568	**21**
Deferred income taxes (Note 12)	**4,040**	405	**33**
Other long-term liabilities	**91,251**	96,309	**760**
Total long-term liabilities	**1,412,736**	1,340,991	**11,772**
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2015 and 2014			
Issued and outstanding – 193,735,000 shares at March 31, 2015 and 2014	**100,000**	100,000	**833**
Capital surplus	**55,000**	55,000	**458**
Retained earnings (Note 24)	**643,198**	632,187	**5,359**
Less treasury stock, at cost – 129,581 shares at March 31, 2015 and 96,571 shares at March 31, 2014	**(480)**	(359)	**(4)**
Total shareholders' equity	**797,717**	786,828	**6,647**
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 4)	**4,955**	3,429	**41**
Net unrealized deferred gain on hedging instruments	**638**	557	**5**
Retirement benefits liability adjustments	**(2,047)**	(6,906)	**(17)**
Total accumulated other comprehensive income (loss)	**3,547**	(2,920)	**29**
Minority interests	**45,436**	23,470	**378**
Total net assets	**846,701**	807,378	**7,055**
Total liabilities and net assets	**¥ 2,786,470**	¥ 2,687,890	**$ 23,220**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2015	2014	2015
Operating revenues (Notes 8 and 22)	¥ 1,350,336	¥ 1,331,019	$ 11,252
Operating expenses:			
Transportation, other services and cost of sales (Note 8)	1,028,221	1,015,174	8,568
Selling, general and administrative expenses (Note 17)	182,340	181,251	1,519
	1,210,562	1,196,426	10,088
Operating income (Notes 8 and 22)	139,774	134,593	1,164
Other income (expenses):			
Interest and dividend income	947	516	7
Interest expense	(25,898)	(28,053)	(215)
Equity in earnings of affiliates	1,901	1,445	15
Gain on contributions received for construction (Note 7)	52,395	15,955	436
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (Note 7)	(51,494)	(13,972)	(429)
Gain on sales of property, plant and equipment	3,005	2,125	25
Loss on sales of property, plant and equipment	(4,483)	(120)	(37)
Other, net (Notes 8 and 23)	6,563	(802)	54
	(17,062)	(22,905)	(142)
Income before income taxes and minority interests	122,712	111,687	1,022
Income taxes (Note 12):			
Current	41,334	47,965	344
Deferred	14,328	(3,339)	119
	55,662	44,625	463
Income before minority interests	67,049	67,061	558
Minority interests	(336)	(1,421)	(2)
Net income	¥ 66,712	¥ 65,640	$ 555

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2015	2014	2015
Income before minority interests	¥ 67,049	¥ 67,061	$ 558
Other comprehensive income (loss) (Note 18):			
Net unrealized holding gain on securities	1,937	754	16
Net unrealized deferred gain on hedging instruments	102	86	0
Retirement benefit liability adjustments	5,203	—	43
Other comprehensive (loss) income of affiliates accounted for by equity method attributable to West Japan Railway Company	(61)	41	(0)
Total other comprehensive income	7,182	881	59
Total comprehensive income	¥ 74,231	¥ 67,943	$ 618

Comprehensive income attributable to the shareholders of West Japan Railway Company and minority shareholders of consolidated subsidiaries for the years ended March 31, 2015 and 2014 is as follows:

	Millions of yen		Millions of U.S. dollars (Note 1)
	2015	2014	2015
Comprehensive income attributable to shareholders of West Japan Railway Company	¥ 73,180	¥ 66,460	$ 609
Comprehensive income attributable to minority shareholders of consolidated subsidiaries	1,051	1,482	8

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2015 and 2014

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 gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2013	¥100,000	¥55,000	¥609,508	¥(21,995)	¥742,512	¥2,677	¥488	¥ —	¥3,165	¥22,495	¥768,174
Net income for the year	—	—	65,640	—	65,640	—	—	—	—	—	65,640
Cash dividends	—	—	(21,310)	—	(21,310)	—	—	—	—	—	(21,310)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Cancellation of treasury stock	—	—	(21,649)	21,649	—	—	—	—	—	—	—
Change of scope of equity method	—	—	—	(12)	(12)	—	—	—	—	—	(12)
Net changes in items other than shareholders' equity	—	—	—	—	—	751	68	(6,906)	(6,086)	974	(5,111)
Balance at April 1, 2014	100,000	55,000	632,187	(359)	786,828	3,429	557	(6,906)	(2,920)	23,470	807,378
Cumulative effect of change in accounting principle	—	—	(32,454)	—	(32,454)	—	—	—	—	—	(32,454)
Balance at April 1, 2014, as adjusted	**100,000**	**55,000**	**599,733**	**(359)**	**754,374**	**3,429**	**557**	**(6,906)**	**(2,920)**	**23,470**	**774,924**
Net income for the year	**—**	**—**	**66,712**	**—**	**66,712**	**—**	**—**	**—**	**—**	**—**	**66,712**
Cash dividends	**—**	**—**	**(23,248)**	**—**	**(23,248)**	**—**	**—**	**—**	**—**	**—**	**(23,248)**
Increase due to changes in equity in affiliates accounted for by equity method	**—**	**—**	**—**	**(121)**	**(121)**	**—**	**—**	**—**	**—**	**—**	**(121)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**1,526**	**81**	**4,859**	**6,467**	**21,965**	**28,433**
Balance at March 31, 2015	**¥100,000**	**¥55,000**	**¥643,198**	**¥ (480)**	**¥797,717**	**¥4,955**	**¥638**	**¥(2,047)**	**¥3,547**	**¥45,436**	**¥846,701**

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 gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2014	$833	$458	$5,268	$(2)	$6,556	$28	$4	$(57)	$(24)	$195	$6,728
Cumulative effect of change in accounting principle	—	—	(270)	—	(270)	—	—	—	—	—	(270)
Balance at April 1, 2014, as adjusted	**833**	**458**	**4,997**	**(2)**	**6,286**	**28**	**4**	**(57)**	**(24)**	**195**	**6,457**
Net income for the year	**—**	**—**	**555**	**—**	**555**	**—**	**—**	**—**	**—**	**—**	**555**
Cash dividends	**—**	**—**	**(193)**	**—**	**(193)**	**—**	**—**	**—**	**—**	**—**	**(193)**
Increase due to changes in equity in affiliates accounted for by equity method	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**—**	**—**	**(1)**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**12**	**0**	**40**	**53**	**183**	**236**
Balance at March 31, 2015	**$833**	**$458**	**$5,359**	**$(4)**	**$6,647**	**$41**	**$5**	**$(17)**	**$29**	**$378**	**$7,055**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

West Japan Railway Company and its consolidated subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 122,712	¥ 111,687	$ 1,022
Adjustments for:			
Depreciation and amortization	149,590	153,903	1,246
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	51,494	13,972	429
Loss on disposal of property, plant and equipment	6,101	5,182	50
Increase in liability for retirement benefits, net	4,335	11,377	36
Decrease in allowance for doubtful accounts	(148)	(263)	(1)
Increase in accrued bonuses for employees	210	867	1
Decrease in other accruals	(575)	(260)	(4)
Interest and dividend income	(947)	(516)	(7)
Interest expense	25,898	28,053	215
Equity in earnings of affiliates	(1,901)	(1,445)	(15)
Gain on contributions received for construction	(52,395)	(15,955)	(436)
Increase in notes and accounts receivable	(779)	(18,894)	(6)
Increase in inventories	(4,504)	(6,286)	(37)
(Decrease) increase in notes and accounts payable	(5,811)	36,982	(48)
Increase (decrease) in accrued consumption taxes	11,338	(5,013)	94
Other	(5,255)	883	(43)
Subtotal	299,361	314,275	2,494
Interest and dividend received	819	516	6
Interest paid	(26,039)	(28,222)	(216)
Income taxes paid	(50,527)	(48,835)	(421)
Net cash provided by operating activities	223,613	237,733	1,863
Cash flows from investing activities			
Payments for time deposits with a maturity in excess of three months	(231)	(231)	(1)
Proceeds from time deposits with a maturity in excess of three months	231	230	1
Purchases of property, plant and equipment	(239,680)	(182,585)	(1,997)
Proceeds from sales of property, plant and equipment	2,678	2,153	22
Contributions received for construction	27,816	20,009	231
Purchases of investments in securities	(1,404)	(2,464)	(11)
Proceeds from sales of investments in securities	304	127	2
Increase in long-term loans receivable	(120)	(302)	(1)
Collection of long-term loans receivable	142	431	1
Other	(2,647)	(2,724)	(22)
Net cash used in investing activities	(212,912)	(165,356)	(1,774)
Cash flows from financing activities			
Net increase in short-term loans	221	1,541	1
Proceeds from long-term loans	67,200	66,200	560
Repayment of long-term loans	(25,656)	(38,805)	(213)
Proceeds from issuance of bonds	40,000	10,000	333
Redemption of bonds	(20,000)	—	(166)
Repayment of long-term payables	(38,114)	(39,705)	(317)
Purchases of treasury stock	—	(0)	—
Cash dividends paid to shareholders of West Japan Railway Company	(23,249)	(21,300)	(193)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(143)	(115)	(1)
Other	1,432	(25,624)	11
Net cash provided by (used in) financing activities	1,689	(47,811)	14
Net increase in cash and cash equivalents	12,390	24,565	103
Cash and cash equivalents at beginning of year	72,956	48,390	607
Cash and cash equivalents at end of year (Note 3)	¥ 85,346	¥ 72,956	$ 711

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

West Japan Railway Company and its consolidated subsidiaries
March 31, 2015

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

Basis of Presentation of Financial Statements

The accompanying consolidated financial statements of West Japan Railway Company (the "Company") and 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 year ended March 31, 2014 to the 2015 presentation. Such reclassifications had no effect on consolidated net income or net asset.

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 ¥120 = U.S.$1.00, the exchange rate prevailing on March 31, 2015. 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 (the equity method). Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany gain or loss.

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.

The balance sheet date of one affiliate is September 30 and the Company applied the equity method to its investments in this affiliate using the most recent financial statements as of the fiscal year end. The balance sheet date of the remaining affiliates is the same as that of the consolidated financial statements.

(2) Cash and cash equivalents

For the purpose of the consolidated statement 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) Short-term investments and investments in securities

Marketable securities classified as other 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. Non-marketable securities classified as other securities are stated at cost primarily 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 specific 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 (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 included in other assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

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.

(8) Research and development costs

Research and development costs are charged to income as incurred.

Notes to Consolidated Financial Statements

(9) Goodwill
Goodwill is amortized over a period of five years on a straight-line basis.

(10) 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.

(11) 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.

(12) 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.

(13) Accrued bonuses for employees
Accrued bonuses for employees are provided at an expected payment amount of the bonuses to employees.

(14) Provision for customer point programs
Provision 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.

(15) Retirement benefits
The asset and liability for retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of the balance sheet date.

The retirement benefit obligation is attributed to each period by the benefit formula method.

The net retirement benefit obligation at transition is being amortized over a period of fifteen years.

Prior service cost is principally charged to income when incurred.

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.

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").

(16) Provision for environmental safety measures
To meet expenditures for the disposal of polychlorinated biphenyl and other wastes held by the Company and certain consolidated subsidiaries, a provision at an amount reasonably estimated has been provided.

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

(18) 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.

(19) 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.

(20) 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").

The Company and its consolidated subsidiaries hedge foreign currency exchange rate risk and interest rate risk within certain ranges based on their internal rules for derivative transactions.

The relationship between the hedging instruments and the underlying hedged items is evaluated at each balance sheet date to confirm the effectiveness of hedging activities. However, an evaluation of effectiveness is omitted for currency swaps which meet certain conditions for applying the allocation method and interest-rate swaps which meet certain conditions for applying the special treatment.

2 Accounting Change

The Company and certain consolidated subsidiaries adopted the main clause of Section 35 of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed.

The cumulative effect of changing the methods for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Section 37 of Accounting Standard for Retirement Benefits.

As a result, the liability for retirement benefits increased by ¥50,992 million ($424 million) and retained earnings decreased by ¥32,454 million ($270 million) at April 1, 2014, and consolidated operating income and income before income taxes and minority interests for the year ended March 31, 2015 increased by ¥3,086 million ($25 million), respectively. Information regarding the impact on per share amounts can be found in Note 19 "Amounts per share."

3 Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2015 and 2014 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
	2015	2014	**2015**
Cash and deposits	**¥ 53,592**	¥ 55,203	**$ 446**
Time deposits with original maturities in excess of three months included in cash and deposits	**(245)**	(246)	**(2)**
Certificate of deposits with the original maturity within three months included in short-term investments	**32,000**	18,000	**266**
Cash and cash equivalents	**¥ 85,346**	¥ 72,956	**$ 711**

4 Short-Term Investments and Investments in Securities

The accounting standard for financial instruments requires that, except for investments in unconsolidated subsidiaries and affiliates, all other 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, 2015 and 2014. The standard further requires that other securities classified as other securities are stated at fair value, with any unrealized holding gain or loss reported as a separate component of net assets, net of deferred income taxes.

Financial Statements

Notes to Consolidated Financial Statements

Marketable securities classified as other securities at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen					
	2015			2014		
	Carrying value	Acquisition costs	Unrealized gain	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥ 16,078**	**¥ 8,648**	**¥ 7,430**	¥ 11,214	¥ 6,361	¥ 4,852
Debt securities:						
Government bonds	**264**	**255**	**9**	157	151	6
Corporate bonds	**19**	**18**	**0**	25	25	0
Subtotal	**16,362**	**8,922**	**7,439**	11,397	6,537	4,859
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**—**	**—**	**—**	637	650	(13)
Debt securities:						
Government bonds	**—**	**—**	**—**	99	100	(0)
Other	**32,000**	**32,000**	**—**	18,000	18,000	—
Subtotal	**32,000**	**32,000**	**—**	18,736	18,750	(13)
Total	**¥ 48,362**	**¥ 40,922**	**¥ 7,439**	¥ 30,134	¥ 25,288	¥ 4,846

	Millions of U.S. dollars		
	2015		
	Carrying value	Acquisition costs	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$ 133**	**$ 72**	**$ 61**
Debt securities:			
Government bonds	**2**	**2**	**0**
Corporate bonds	**0**	**0**	**0**
Subtotal	**136**	**74**	**61**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**—**	**—**	**—**
Debt securities:			
Government bonds	**—**	**—**	**—**
Other	**266**	**266**	**—**
Subtotal	**266**	**266**	**—**
Total	**$ 403**	**$ 341**	**$ 61**

5 Inventories

Inventories at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Merchandise and real estate for sale	**¥ 9,354**	¥ 12,868	**$ 77**
Contracts in process	**29,714**	16,647	**247**
Rails, materials and supplies	**18,685**	14,698	**155**
	¥ 57,755	¥ 44,215	**$ 481**

6 Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2015	2014	**2015**
Investments in:			
Unconsolidated subsidiaries	**¥ 9,868**	¥ 9,725	**$ 82**
Affiliates	**32,980**	43,184	**274**
	¥ 42,848	¥ 52,909	**$ 357**

7 Property, Plant and Equipment

Contributions for the construction of railway facilities granted by national and municipal governments and others are recognized as gain on contributions received for construction upon receipt. These contribution amounts are deducted directly from the acquisition costs of the related fixed assets upon completion 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 recognized as other income upon receipt. These compensation amounts are 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, 2015 and 2014 totaled ¥51,494 million ($429 million) and ¥13,972 million, respectively. For railway services, the accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2015 and 2014 amounted to ¥673,410 million ($5,611 million) and ¥670,229 million, respectively.

For railway services, the compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2015 and 2014 totaled ¥1,662 million ($13 million) and ¥4,908 million, respectively.

8 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 ¥38,697 million ($322 million) and ¥38,439 million for the years ended March 31, 2015 and 2014, 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 sheet and corresponding fair value of those properties as of March 31, 2015 and 2014 are as follows:

Millions of yen

			2015
	Carrying value		Fair value
As of April 1, 2014	Net change	As of March 31, 2015	As of March 31, 2015
¥ 159,833	**¥ 6,376**	**¥ 166,209**	**¥ 360,473**

Millions of yen

			2014
	Carrying value		Fair value
As of April 1, 2013	Net change	As of March 31, 2014	As of March 31, 2014
¥ 161,991	¥ (2,157)	¥ 159,833	¥ 344,475

Millions of U.S. dollars

			2015
	Carrying value		Fair value
As of April 1, 2014	Net change	As of March 31, 2015	As of March 31, 2015
$ 1,331	**$ 53**	**$ 1,385**	**$ 3,003**

Notes: 1. The carrying value represents the acquisition cost less accumulated depreciation and accumulated impairment loss.
2. The components of net change in carrying value for the years ended March 31, 2015 and 2014 included increases mainly due to acquisitions of real estate properties in the amounts of ¥15,009 million ($125 million) and ¥9,751 million and decreases mainly due to depreciation in the amounts of ¥7,525 million ($62 million) and ¥8,501 million, respectively.
3. The fair value of main properties is estimated in accordance with appraisal standards for valuing real estate properties. The fair value of the others is based on carrying value or a valuation amount that reasonably reflects market value.

Notes to Consolidated Financial Statements

9 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, 2015 and 2014 ranged from 0.23% to 0.52% and from 0.22% to 0.67%, respectively.

Long-term debt at March 31, 2015 and 2014 is summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	**2015**
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	**$ 916**
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.52% to 2.49%, due from 2019 through 2045	**369,977**	349,975	**3,083**
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.37% to 3.25%, due in installments from 2016 through 2021	**37,663**	43,564	**313**
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.17% to 2.15%, due in installments from 2016 through 2034	**298,800**	250,200	**2,490**
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2016 through 2019	**2,130**	2,740	**17**
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2016 through 2034	**8,053**	8,572	**67**
Other	**13,796**	14,310	**114**
	840,420	779,362	**7,003**
Less current portion	**(48,645)**	(46,572)	**(405)**
	¥ 791,775	¥ 732,789	**$ 6,598**

The aggregate annual maturities of long-term debt subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 48,645	$ 405
2017	64,458	537
2018	82,213	685
2019	74,260	618
2020	76,508	637
2021 and thereafter	494,356	4,119
	¥ 840,443	$ 7,003

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, 2015 and 2014 was as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	**2015**
Lines of credit	**¥ 130,000**	¥ 130,000	**$ 1,083**
Credit utilized	**—**	—	**—**
Available credit	**¥ 130,000**	¥ 130,000	**$ 1,083**

10 Pledged Assets

Assets pledged at March 31, 2015 as collateral for indebtedness are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Bank deposits included in cash and deposits	¥ 245	$ 2
Investments in other securities	605	5
Land	159	1
Buildings and structures, net	15,951	132
	¥ 16,962	$ 141

The indebtedness secured by such collateral at March 31, 2015 was as follows:

	Millions of yen	Millions of U.S. dollars
Notes and accounts payable	¥ 22	$ 0
Current portion of long-term loans included in current portion of long-term debt	610	5
Long-term loans included in long-term debt	1,520	12
	¥ 2,152	$ 17

In addition, the entire property of the Company is subject to statutory preferential rights for the security of all its secured bonds in the amount of ¥110,000 million ($916 million).

11 Long-Term Payables

Long-term payables at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen 2015	2014	Millions of U.S. dollars 2015
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Variable interest portion, due in installments from 2016 through 2017	**¥ 31,925**	¥ 55,281	**$ 266**
Fixed interest portion at 6.35% and 6.55%, due in installments from 2016 through 2052	**135,738**	149,869	**1,131**
Other	**4,185**	4,845	**34**
	171,850	209,996	**1,432**
Less current portion	**(33,645)**	(38,104)	**(280)**
	¥ 138,205	¥ 171,891	**$ 1,151**

The average variable interest rates for the years ended March 31, 2015 and 2014 were 4.13% and 4.12%, respectively.

The aggregate annual maturities of long-term payables subsequent to March 31, 2015 are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 33,645	$ 280
2017	30,729	256
2018	1,510	12
2019	1,579	13
2020	1,645	13
2021 and thereafter	102,740	856
	¥ 171,850	$ 1,432

12 Income Taxes

The aggregate statutory tax rates applicable to the Company and its consolidated subsidiaries were 35.64% and 38.01% for the years ended March 31, 2015 and 2014, respectively.

A reconciliation of the statutory tax rates and effective tax rates for the years ended March 31, 2015 and 2014 as a percentage of income before income taxes and minority interests is as follows:

	2015	2014
Statutory tax rates	**35.64 %**	38.01 %
Effect of:		
Decrease in deferred tax assets resulting from changes in statutory tax rates	**10.89**	1.54
Change in valuation allowance	**(1.47)**	(0.01)
Per capita portion of inhabitants' taxes	**0.52**	0.63
Permanent non-deductible expenses	**0.33**	0.36
Other	**(0.55)**	(0.58)
Effective tax rates	**45.36 %**	39.95 %

Notes to Consolidated Financial Statements

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen 2015	2014	Millions of U.S. dollars 2015
Deferred tax assets:			
Accrued bonuses for employees	**¥ 12,387**	¥ 12,861	**$ 103**
Accrued enterprise taxes included in accrued expenses	**1,744**	2,291	**14**
Liability for retirement benefits	**121,674**	116,197	**1,013**
Unrealized gain on property, plant and equipment	**11,506**	8,895	**95**
Tax loss carryforwards	**8,940**	6,522	**74**
Other	**28,984**	35,460	**241**
Gross deferred tax assets	**185,238**	182,229	**1,543**
Valuation allowance	**(15,020)**	(18,327)	**(125)**
Total deferred tax assets	**170,218**	163,901	**1,418**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(2,809)**	(1,727)	**(23)**
Contributions received for construction deducted from acquisition costs of property, plant and equipment	**(12,405)**	(12,678)	**(103)**
Gain on valuation of assets of consolidated subsidiaries	**(1,551)**	(882)	**(12)**
Other	**(4,709)**	(2,162)	**(39)**
Total deferred tax liabilities	**(21,476)**	(17,451)	**(178)**
Deferred tax assets, net	**¥ 148,742**	¥ 146,450	**$ 1,239**

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.64% to 33.06% and 32.26% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and for the temporary differences expected to be realized or settled from April 1, 2016, respectively. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥13,172 million ($109 million) and increase deferred income tax expense by ¥13,366 million ($111 million) as of and for the year ended March 31, 2015.

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 and net book value of the leased assets as of March 31, 2015 and 2014, which would have been reflected in the accompanying consolidated balance sheet 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 2015			2014		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:						
Buildings and structures	**¥ 102**	**¥ 74**	**¥ 27**	¥ 2,403	¥ 614	¥ 1,789
Machinery, equipment and vehicles	**186**	**114**	**71**	186	100	86
Tools, furniture and fixtures	**94**	**87**	**6**	106	91	15
	¥ 383	**¥ 276**	**¥ 106**	¥ 2,696	¥ 805	¥ 1,891

	Millions of U.S. dollars		
	2015		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:			
Buildings and structures	**$ 0**	**$ 0**	**$ 0**
Machinery, equipment and vehicles	**1**	**0**	**0**
Tools, furniture and fixtures	**0**	**0**	**0**
	$ 3	**$ 2**	**$ 0**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2015 and 2014 totaled ¥92 million ($0 million) and ¥129 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.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2015 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 30	$ 0
2017 and thereafter	76	0
	¥ 106	$ 0

Future minimum lease payments subsequent to March 31, 2015 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 1,240	$ 10
2017 and thereafter	14,244	118
	¥ 15,485	$ 129

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2015 and 2014 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					
	2015			2014		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	**¥ 1,606**	**¥ 1,214**	**¥ 391**	¥ 1,687	¥ 1,147	¥ 540
Tools, furniture and fixtures	**309**	**253**	**56**	559	455	104
	¥ 1,916	**¥ 1,468**	**¥ 447**	¥ 2,247	¥ 1,602	¥ 644

	Millions of U.S. dollars		
	2015		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	**$ 13**	**$ 10**	**$ 3**
Tools, furniture and fixtures	**2**	**2**	**0**
	$ 15	**$ 12**	**$ 3**

Notes to Consolidated Financial Statements

Lease receipts relating to finance leases accounted for as operating leases for the years ended March 31, 2015 and 2014 were ¥186 million ($1 million) and ¥230 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2015 and 2014 computed by the straight-line method over the respective lease terms amounted to ¥174 million ($1 million) and ¥215 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2015 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 159	$ 1
2017 and thereafter	307	2
	¥ 466	$ 3

Future minimum lease receipts subsequent to March 31, 2015 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Millions of U.S. dollars
2016	¥ 298	$ 2
2017 and thereafter	1,923	16
	¥ 2,222	$ 18

14 Retirement Benefit Plans

The Company and its consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans. Certain consolidated subsidiaries have a small-and medium-sized enterprise mutual aid plan (a funded defined contribution retirement plan) and/or a defined contribution pension plan.

In certain cases, special retirement benefits may be paid to employees.

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses by the Simplified Method.

The changes in the retirement benefit obligations, except those for which the Simplified Method was applied, during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Retirement benefit obligations at beginning of year	¥ 328,182	¥ 322,081	$ 2,734
Cumulative effect of change in accounting principle	50,777	—	423
Balance at beginning of year, as adjusted	378,960	322,081	3,158
Service cost	13,827	13,294	115
Interest cost	3,122	6,428	26
Actuarial gain	(2,861)	(413)	(23)
Retirement benefits paid	(17,168)	(13,269)	(143)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	337	—	2
Increase resulting from newly consolidated subsidiaries	2,689	—	22
Other	904	60	7
Retirement benefit obligations at end of year	¥ 379,812	¥ 328,182	$ 3,165

The changes in plan assets, except those for which the Simplified Method was applied, during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Plan assets at beginning of year	¥ 7,896	¥ 6,643	$ 65
Expected return on plan assets	202	171	1
Actuarial gain	912	402	7
Contributions paid by the Company and its consolidated subsidiaries	1,372	1,135	11
Retirement benefits paid	(494)	(456)	(4)
Increase resulting from newly consolidated subsidiaries	2,437	—	20
Plan assets at end of year	¥ 12,327	¥ 7,896	$ 102

The changes in retirement benefit obligations for which the Simplified Method was applied during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	2014	Millions of U.S. dollars 2015
Retirement benefit obligations at beginning of year	**¥ 5,067**	¥ 5,042	**$ 42**
Retirement benefit expenses	**1,038**	900	**8**
Retirement benefits paid	**(391)**	(614)	**(3)**
Contributions paid by the Company and its consolidated subsidiary	**(254)**	(260)	**(2)**
Reclassification of retirement benefit obligation resulting from change from Simplified Method	**(337)**	—	**(2)**
Increase resulting from newly consolidated subsidiaries	**85**	—	**0**
Retirement benefit obligations at end of year	**¥ 5,207**	¥ 5,067	**$ 43**

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2015 and 2014 for the Company's and its consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method was applied:

	Millions of yen 2015	2014	Millions of U.S. dollars 2015
Funded retirement benefit obligations	**¥ 14,600**	¥ 11,872	**$ 121**
Plan assets at fair value	**(14,276)**	(9,710)	**(118)**
	324	2,161	**2**
Unfunded retirement benefit obligations	**372,368**	323,192	**3,103**
Net liability for retirement benefits in the balance sheet	**372,693**	325,353	**3,105**
Liability for retirement benefits	**375,285**	326,823	**3,127**
Asset for retirement benefits	**(2,592)**	(1,469)	**(21)**
Net liability for retirement benefits in the balance sheet	**¥ 372,693**	¥ 325,353	**$ 3,105**

The components of retirement benefit expenses for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen 2015	2014	Millions of U.S. dollars 2015
Service cost	**¥ 13,827**	¥ 13,294	**$ 115**
Interest cost	**3,122**	6,428	**26**
Expected return on plan assets	**(202)**	(171)	**(1)**
Amortization of unrecognized actuarial loss	**3,548**	4,732	**29**
Amortization of prior service cost	**458**	12	**3**
Amortization of net retirement benefits at transition	**706**	706	**5**
Net retirement benefit expenses calculated by the Simplified Method	**1,038**	900	**8**
Other	**432**	51	**3**
Retirement benefit expenses under defined benefit pension plans	**¥ 22,931**	¥ 25,955	**$ 191**

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the year ended March 31, 2015 are as follows:

	Millions of yen 2015	Millions of U.S. dollars 2015
Prior service cost	**¥ (3)**	**$ 0**
Actuarial loss	**7,492**	**62**
Net retirement benefit at transition	**706**	**5**
	¥ 8,195	**$ 68**

Notes to Consolidated Financial Statements

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Unrecognized prior service cost	¥ 2	¥ 5	$ 0
Unrecognized actuarial loss	(1,986)	(9,478)	(16)
Unrecognized net retirement benefits at transition	(706)	(1,412)	(5)
	¥ (2,690)	¥ (10,885)	$ (22)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2015 and 2014 are as follows:

	2015	2014
Debt securities	47 %	47 %
Equity securities	31	35
Other	21	18
Total	100 %	100 %

The expected return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above retirement benefit plans for the years ended March 31, 2015 and 2014 are principally as follows:

	2015	2014
Discount rate	0.8 %	2.0 %
Expected rate of return on plan assets	3.0 %	3.0 %

Total contributions paid by the Company and its consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2015 and 2014 amounted to ¥374 million ($3 million) and ¥279 million, respectively.

15 Contingent Liabilities

At March 31, 2015 the Company and its consolidated subsidiaries were contingently liable for guarantees of loans, accounts payable – trade and other obligations of unconsolidated subsidiaries and affiliates in the aggregate amount of ¥10,655 million ($88 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 Companies Act 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 sheet and consolidated statement of changes in net assets. The Company's legal reserve included in retained earnings amounted to ¥11,327 million ($94 million) at March 31, 2015 and 2014, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2015 and 2014 are summarized as follows:

Number of shares

	April 1, 2014	Increase	Decrease	**March 31, 2015**
Common stock	193,735,000	—	—	**193,735,000**
Treasury stock	96,571	33,010	—	**129,581**

Number of shares

	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	198,256,600	—	4,521,600	193,735,000
Treasury stock	4,615,100	3,071	4,521,600	96,571

The increase in treasury stock during the year ended March 31, 2015 was due to changes in equity in affiliates accounted for by the equity method.

The increases in treasury stock during the year ended March 31, 2014 consists of 206 shares of purchases of shares less than one trading unit and 2,865 shares attributable to the Company owned by a new affiliate accounted for by the equity method.

The decreases in common stock and treasury stock during the year ended March 31, 2014 were due to cancellation of treasury stock.

17 Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥10,402 million ($86 million) and ¥9,412 million for the years ended March 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements

18 Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2015 and 2014.

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 3,053	¥ 1,157	$ 25
Reclassification adjustments for gain included in consolidated statement of income	(34)	—	(0)
Before tax effect	3,019	1,157	25
Tax effect	(1,082)	(403)	(9)
Total	1,937	754	16
Net unrealized deferred gain on hedging instruments:			
Amount arising during the year	117	139	0
Before tax effect	117	139	0
Tax effect	(15)	(52)	(0)
Total	102	86	0
Retirement benefit liability adjustments:			
Amount arising during the year	3,481	—	29
Reclassification adjustments for loss included in consolidated statement of income	4,713	—	39
Before tax effect	8,195		68
Tax effect	(2,991)	—	(24)
Total	5,203	—	43
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to the Company:			
Amount arising during the year	(61)	41	(0)
Other comprehensive income, net	¥ 7,182	¥ 881	$ 59

19 Amounts per Share

Amounts per share at March 31, 2015 and 2014 and for the years then ended were as follows:

	Yen		U.S. dollars
	2015	2014	2015
Net assets	¥ 4,138.65	¥ 4,048.31	$ 34.48
Net income	344.58	338.98	2.87
Cash dividends	125.00	115.00	1.04

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, 2015 and 2014 since the Company had no potentially dilutive stock at March 31, 2015 and 2014.

As described in Note 2 "Accounting Change," effective the year ended March 31, 2015, revised accounting standards for retirement benefits were adopted and the effect of the adoption of these revised accounting standards was included in accumulated other comprehensive income as retirement benefits liability adjustments as of April 1, 2014 in accordance with transitional accounting treatment provided in the revised accounting standards. As a result, net assets per share decreased by ¥151.69 ($1.26) as of March 31, 2015 and net income per share increased by ¥15.94 ($0.13) for the year ended March 31, 2015.

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 which cannot be fully provided by cash flows. 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. Short-term investments and investments in securities are exposed to market risk. Those securities are mainly composed of the shares of common stock of other companies with which the Group has business relationships.

Substantially all trade payables – trade notes and accounts payable and deposits and advances received – have payment due dates within one year. The Group is also exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies. However, regarding trade payables denominated in foreign currencies arising from organized foreign tours, forward foreign exchange contracts are principally arranged to reduce the risk. Bonds and bank borrowings are taken out principally for the purpose of settlement of existing payables and capital investments. The redemption dates of these long-term debts extend up to twenty nine years from March 31, 2015. 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 six years from March 31, 2015. 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 (20).

(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 Company for managing credit risk arising from trade receivables, the Company monitors due dates and outstanding balances by individual customer. The Company is also making efforts to identify and mitigate risks arising from bad debts from customers who are having financial difficulties. The consolidated subsidiaries also monitor the risk as same manners as the Company in accordance with their internal policies.

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 by currency and month 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 short-term investments and investments in 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.

Notes to Consolidated Financial Statements

(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, 2015 and 2014 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

	2015		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 53,592	¥ 53,592	¥ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	852	852	—
Trade	147,242	147,242	—
Short-term investments and investments in securities:			
Investments in subsidiaries and affiliates	2,365	2,213	(151)
Other securities	48,362	48,362	—
Liabilities:			
Short-term loans	(16,335)	(16,335)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,663)	(2,663)	—
Trade	(176,097)	(176,097)	—
Income taxes payable	(18,584)	(18,584)	—
Accrued expenses	(2,607)	(2,607)	—
Deposits (component of deposits and advances received)	(79,168)	(79,168)	—
Long-term debt (including current portion)	(832,366)	(897,523)	(65,156)
Long-term payables (including current portion)	(171,850)	(285,620)	(113,769)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	1,244	1,244	—

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 55,203	¥ 55,203	¥ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,008	2,008	—
Trade	112,873	112,873	—
Short-term investments and investments in securities:			
Investments in subsidiaries and affiliates	2,047	1,814	(232)
Other securities	30,134	30,134	—
Liabilities:			
Short-term loans	(25,754)	(25,754)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(8,242)	(8,242)	
Trade	(163,133)	(163,133)	—
Income taxes payable	(27,248)	(27,248)	—
Accrued expenses	(2,535)	(2,535)	—
Deposits (component of deposits and advances received)	(71,693)	(71,693)	—
Long-term debt (including current portion)	(770,789)	(828,497)	(57,707)
Long-term payables (including current portion)	(209,996)	(319,305)	(109,309)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	1,126	1,126	—

Notes to Consolidated Financial Statements

	Millions of U.S. dollars		
	2015		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	$ 446	$ 446	$ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	7	7	—
Trade	1,227	1,227	—
Short-term investments and investments in securities:			
Investments in subsidiaries and affiliates	19	18	(1)
Other securities	403	403	—
Liabilities:			
Short-term loans	(136)	(136)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(22)	(22)	—
Trade	(1,467)	(1,467)	—
Income taxes payable	(154)	(154)	—
Accrued expenses	(21)	(21)	—
Deposits (component of deposits and advances received)	(659)	(659)	—
Long-term debt (including current portion)	(6,936)	(7,479)	(542)
Long-term payables (including current portion)	(1,432)	(2,380)	(948)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	10	10	—

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

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

Short-term investments and investments in securities
Since short-term investments are settled in a short period of time, their carrying value approximates fair value. 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, notes and accounts payable, deposits and income taxes payable
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), 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 included in long-term payable 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, 2015 and 2014 are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2014	2015
Investments in securities			
Unlisted stocks	¥ 42,992	¥ 53,167	$ 358
Other	3	10	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, 2015 and 2014 is as follows:

	Millions of yen		
	2015		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 42,674	¥ —	¥ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	852	—	—
Trade	147,164	77	—
Short-term investments and investments in securities:			
Other marketable securities with maturities (certificates of deposits)	32,000	—	—
Other marketable securities with maturities (national government bonds)	—	—	267
Other marketable securities with maturities (corporate bonds)	6	12	—
Total	¥ 222,697	¥ 90	¥ 267

	Millions of U.S. dollars		
	2015		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	$ 355	$ —	$ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	7	—	—
Trade	1,226	0	—
Short-term investments and investments in securities:			
Other marketable securities with maturities (certificates of deposit)	266	—	—
Other marketable securities with maturities (national government bonds)	—	—	2
Other marketable securities with maturities (corporate bonds)	0	0	—
Total	$ 1,855	$ 0	$ 2

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.

Notes to Consolidated Financial Statements

21 Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2015 and 2014.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2015 and 2014 were as follows:

Currency-related transactions

Millions of yen

Method of hedge accounting	Description of transaction	Hedged items	2015 Notional amount	2015 Notional amount (Over 1 year)	2015 Estimated fair value	
Deferral hedge accounting	Forward foreign exchange contracts					
	Purchase					
	Euro	Current portion of long-term payable (Forecasted transaction)	**¥ 8,746**	**¥ —**	**¥ 543**	(*1)
	U.S. dollars		**4,558**	**—**	**574**	(*1)
	Other		**2,722**	**—**	**126**	(*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts					
	Purchase					
	Euro	Current portion of long-term payable	**839**	**—**		(*2)
	U.S. dollars		**502**	**—**		(*2)
	Other		**263**	**—**		(*2)
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 debt	**3,100**	**3,100**		(*2)
			¥ 20,733	**¥ 3,100**	**¥ 1,244**	

Millions of yen

Method of hedge accounting	Description of transaction	Hedged items	2014 Notional amount	2014 Notional amount (Over 1 year)	2014 Estimated fair value	
Deferral hedge accounting	Forward foreign exchange contracts					
	Purchase					
	Euro	Current portion of long-term payable (Forecasted transaction)	¥ 8,751	¥ —	¥ 833	(*1)
	U.S. dollars		4,073	—	250	(*1)
	Other		2,124	—	42	(*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts					
	Purchase					
	Euro	Current portion of long-term payable	999	—		(*2)
	U.S. dollars		454	—		(*2)
	Other		258	—		(*2)
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 debt	3,100	3,100		(*2)
			¥ 19,762	¥ 3,100	¥ 1,126	

			Millions of U.S. dollars		
			2015		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Current portion of long-term payable (Forecasted transaction)	$ 72	$ —	$ 4 (*1)
	U.S. dollars		37	—	4 (*1)
	Other		22	—	1 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Current portion of long-term payable	6	—	(*2)
	U.S. dollars		4	—	(*2)
	Other		2	—	(*2)
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 debt	25	25	(*2)
			$ 172	$ 25	$ 10

(*1) The fair value is primarily based on the prices provided by financial institutions.
(*2) 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 long-term payable or long-term debt, their fair values were included in long-term payable or long-term debt.

Interest-rate related transactions

			Millions of yen		
			2015		
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 debt	¥ 7,000	—	(*)

			Millions of yen		
			2014		
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 debt	¥ 7,000	¥ 7,000	(*)

			Millions of U.S. dollars		
			2015		
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 debt	$ 58	—	(*)

(*) Because interest rate swap contracts are accounted for as if the interest rates applied to the swaps had originally applied to the long-term debt, their fair values were included in long-term debt.

Notes to Consolidated Financial Statements

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, sales of goods and food services and real estate.

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

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

As described in Note 2 "Accounting Change," due to the changes in accounting treatment for retirement benefits, the methods of calculating the retirement benefit obligation and service costs in each business segment were changed. As a result, segment income of Transportation, Sales of goods and food services and Other businesses for the year ended March 31, 2015 increased by ¥3,026 million ($25 million), ¥28 million ($0 million) and ¥31 million ($0 million), respectively.

Reportable segment information for the years ended March 31, 2015 and 2014 is outlined as follows:

Millions of yen

	2015						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 868,482	¥ 220,180	¥ 87,207	¥ 174,466	¥ 1,350,336	¥ —	¥ 1,350,336
Intersegment operating revenues or transfers	17,088	7,120	18,695	266,706	309,611	(309,611)	—
Total	¥ 885,570	¥ 227,301	¥ 105,903	¥ 441,173	¥ 1,659,948	¥ (309,611)	¥ 1,350,336
Segment income	¥ 100,679	¥ 1,597	¥ 25,190	¥ 15,633	¥ 143,100	¥ (3,326)	¥ 139,774
Segment assets	¥ 1,976,724	¥ 108,771	¥ 419,955	¥ 401,327	¥ 2,906,779	¥ (120,309)	¥ 2,786,470
Other items:							
Depreciation and amortization	¥ 125,133	¥ 5,007	¥ 16,697	¥ 2,751	¥ 149,590	¥ —	¥ 149,590
Gain on negative goodwill	—	—	109	6,525	6,635	—	6,635
Investment in affiliates accounted for by the equity method	21,830	—	—	10,123	31,954	—	31,954
Increase in tangible and intangible fixed assets	210,344	10,430	29,723	20,986	271,484	—	271,484

Millions of yen

	2014						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 851,385	¥ 240,179	¥ 102,261	¥ 137,193	¥ 1,331,019	¥ —	¥ 1,331,019
Intersegment operating revenues or transfers	17,248	54,311	18,716	189,060	279,337	(279,337)	—
Total	¥ 868,634	¥ 294,490	¥ 120,978	¥ 326,253	¥ 1,610,356	¥ (279,337)	¥ 1,331,019
Segment income	¥ 91,013	¥ 4,429	¥ 27,793	¥ 11,860	¥ 135,097	¥ (504)	¥ 134,593
Segment assets	¥ 1,949,883	¥ 111,280	¥ 399,263	¥ 295,959	¥ 2,756,387	¥ (68,496)	¥ 2,687,890
Other items:							
Depreciation and amortization	¥ 128,200	¥ 5,084	¥ 17,414	¥ 3,203	¥ 153,903	¥ —	¥ 153,903
Investment in affiliates accounted for by the equity method	20,509	—	—	21,839	42,349	—	42,349
Increase in tangible and intangible fixed assets	163,768	5,210	14,610	8,341	191,932	—	191,932

Millions of U.S. dollars

	2015						
	Reportable segments						
	Transportation	Sales of goods and food services	Real estate business	Other businesses	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	**$ 7,237**	**$ 1,834**	**$ 726**	**$ 1,453**	**$ 11,252**	**$ —**	**$ 11,252**
Intersegment operating revenues or transfers	**142**	**59**	**155**	**2,222**	**2,580**	**(2,580)**	**—**
Total	**$ 7,379**	**$ 1,894**	**$ 882**	**$ 3,676**	**$ 13,832**	**$ (2,580)**	**$ 11,252**
Segment income	**$ 838**	**$ 13**	**$ 209**	**$ 130**	**$ 1,192**	**$ (27)**	**$ 1,164**
Segment assets	**$ 16,472**	**$ 906**	**$ 3,499**	**$ 3,344**	**$ 24,223**	**$ (1,002)**	**$ 23,220**
Other items:							
Depreciation and amortization	**$ 1,042**	**$ 41**	**$ 139**	**$ 22**	**$ 1,246**	**$ —**	**$ 1,246**
Gain on negative goodwill	**—**	**—**	**0**	**54**	**55**	**—**	**55**
Investment in affiliates accounted for by the equity method	**181**	**—**	**—**	**84**	**266**	**—**	**266**
Increase in tangible and intangible fixed assets	**1,752**	**86**	**247**	**174**	**2,262**	**—**	**2,262**

Notes to Consolidated Financial Statements

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

Gain on negative goodwill in Other businesses arising from the business combination amounted to ¥6,403 million ($53 million).

Information on each product and service was omitted for the years ended March 31, 2015 and 2014 because it was same as that of the reportable segment information.

Geographical information and information on sales to major customers was omitted for the years ended March 31, 2015 and 2014 because there were no items that meet their disclosure criteria.

Information on loss on impairment of property, plant and equipment per each reportable segment was omitted because the amounts were immaterial for the year ended March 31, 2015 and 2014.

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended March 31, 2015 and 2014 was omitted because the amounts were immaterial.

23 Business Combination

Business combinations by acquisition of shares

On April 24, 2014, Daitetsu Kogyo Co., Ltd., formerly an affiliate of the Company accounted for by the equity method, that mainly engages in contract construction of buildings and rail and contract service of survey, design and management, acquired its own shares as treasury stock for a total consideration of ¥14,234 million ($118 million). As a result of the acquisition of treasury stock, the ratio of voting rights held by the Company changed from 37.90% to 51.63%, and Daitetsu Kogyo Co., Ltd. became a consolidated subsidiary of the Company. In addition, negative goodwill of ¥5,195 million ($43 million) was recognized in "Other, net" under operating income corresponding to the excess of the fair value of net assets acquired on the acquisition date over the total consideration. This business combination was made in order to improve the safety and quality level of the Company's construction work.

The assets and liabilities of Daitetsu Kogyo Co., Ltd. on the date of the business combination are as follows:

	Millions of yen	Millions of U.S. dollars
Current assets	¥ 62,410	$ 520
Non-current assets	8,475	70
Total assets	¥ 70,885	$ 590
Current liabilities	¥ 31,345	$ 261
Non-current liabilities	1,647	13
Total liabilities	¥ 32,993	$ 274

The operating results of Daitetsu Kogyo Co., Ltd. from April 1, 2014 to March 31, 2015 have been included in the consolidated statement of income for the year ended March 31, 2015.

In addition, JR West Built Co., Ltd., a subsidiary of Daitetsu Kogyo Co., Ltd., also became a consolidated subsidiary of the Company due to this business combination. JR West Built Co., Ltd. mainly engages in the design, execution, management and consulting for construction or engineering work.

24 Subsequent Event

Cash dividends

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, 2015, was to be approved at a meeting of the shareholders of the Company to be held on June 23, 2015:

	Millions of yen	Millions of U.S. dollars
Cash dividends (¥65 = U.S.$0.54 per share)	¥ 12,592	$ 104

Report of Independent Auditors

Ernst & Young ShinNihon LLC

Building a better working world

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 2 "Accounting Change" to the consolidated financial statements, which describes that West Japan Railway Company and its consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of March 26, 2015) effective from April 1, 2014. Our opinion is not qualified in respect of this matter.

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 22, 2015
Osaka, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited