

Consolidated Financial Statements

West Japan Railway Company

*Year ended March 31, 2016
with Independent Auditor's Report*

West Japan Railway Company
Consolidated Financial Statements

Year ended March 31, 2016

Contents

Consolidated Financial Statements

Independent Auditor's Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Profit or Loss.....	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Net Assets.....	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements	9

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, 2016, and the consolidated statements of profit or loss, 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, 2016, 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 25, "Supplemental Information," to the consolidated financial statements, which describes that the Company received approval for its plan to undertake large-scale renovation of the Shinkansen infrastructure under Article 16, Paragraph 1 of the "Nationwide Shinkansen Railway Development Act," and it will start to recognize a corresponding provision from the year ending March 31, 2017. 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 21, 2016
Osaka, Japan

West Japan Railway Company

Consolidated Balance Sheet

As of March 31, 2016

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2016	2015	2016
Assets			
Current assets:			
Cash and deposits (<i>Notes 4, 11 and 21</i>)	¥ 45,973	¥ 53,592	\$ 410
Short-term investments (<i>Notes 4, 5 and 21</i>)	35,000	32,000	312
Notes and accounts receivable (<i>Note 21</i>):			
Unconsolidated subsidiaries and affiliates	759	953	6
Trade	131,929	151,155	1,177
Less allowance for doubtful accounts	(1,014)	(770)	(9)
Inventories (<i>Note 6</i>)	59,387	57,755	530
Income taxes refundable (<i>Note 13</i>)	38	43	0
Deferred income taxes (<i>Note 13</i>)	17,979	18,475	160
Prepaid expenses and other current assets	59,661	50,339	532
Total current assets	349,715	363,544	3,122
Investments:			
Unconsolidated subsidiaries and affiliates (<i>Notes 7 and 21</i>)	53,060	42,848	473
Other securities (<i>Notes 5, 11 and 21</i>)	16,487	18,875	147
Total investments	69,548	61,723	620
Property, plant and equipment, at cost (<i>Notes 8, 9 and 11</i>):			
Land	675,002	671,123	6,026
Buildings and structures	3,180,511	3,099,656	28,397
Machinery, equipment and vehicles	1,415,518	1,352,075	12,638
Tools, furniture and fixtures	134,846	133,354	1,203
Construction in progress	81,885	61,453	731
	5,487,764	5,317,663	48,997
Less accumulated depreciation	(3,245,839)	(3,153,418)	(28,980)
Property, plant and equipment, net	2,241,925	2,164,245	20,017
Deferred income taxes (<i>Note 13</i>)	124,868	134,591	1,114
Asset for retirement benefits (<i>Note 15</i>)	1,384	2,592	12
Other assets (<i>Note 11</i>)	55,752	59,774	497
Total assets (<i>Note 23</i>)	¥ 2,843,194	¥ 2,786,470	\$ 25,385

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2016	2015	2016
Liabilities and net assets			
Current liabilities:			
Short-term loans (<i>Notes 10 and 21</i>)	¥ 14,775	¥ 16,335	\$ 131
Current portion of long-term debt (<i>Notes 10, 11, 21 and 22</i>)	64,579	48,645	576
Current portion of long-term payables (<i>Notes 12 and 21</i>)	30,712	33,645	274
Notes and accounts payable (<i>Notes 11 and 21</i>):			
Unconsolidated subsidiaries and affiliates	2,891	2,663	25
Trade	164,816	176,097	1,471
Prepaid railway fares received	38,589	38,412	344
Deposits and advances received (<i>Note 21</i>)	94,534	95,519	844
Accrued expenses (<i>Note 21</i>)	32,192	31,870	287
Income taxes payable (<i>Notes 13 and 21</i>)	32,648	18,584	291
Provision for employees' bonuses	37,777	37,166	337
Provision for customer point programs	1,619	1,566	14
Other current liabilities	21,648	26,524	193
Total current liabilities	536,786	527,032	4,792
Long-term debt (<i>Notes 10, 11, 21 and 22</i>)	806,678	791,775	7,202
Long-term payables (<i>Notes 12 and 21</i>)	107,472	138,205	959
Liability for retirement benefits (<i>Note 15</i>)	341,359	375,285	3,047
Provision for environmental safety measures	21,099	9,627	188
Provision for unutilized gift tickets	2,668	2,551	23
Deferred income taxes (<i>Note 13</i>)	3,271	4,040	29
Other long-term liabilities	97,481	91,251	870
Total long-term liabilities	1,380,031	1,412,736	12,321
Contingent liabilities (<i>Note 16</i>)			
Net assets:			
Shareholders' equity (<i>Note 17</i>):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2016 and 2015			
Issued and outstanding – 193,735,000 shares at March 31, 2016 and 2015	100,000	100,000	892
Capital surplus	55,068	55,000	491
Retained earnings	704,187	643,198	6,287
Less treasury stock, at cost – 129,849 and 129,581 shares at March 31, 2016 and 2015	(481)	(480)	(4)
Total shareholders' equity	858,775	797,717	7,667
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	3,523	4,955	31
Net unrealized deferred (loss) gain on hedging instruments	(121)	638	(1)
Retirement benefits liability adjustments (<i>Note 15</i>)	15,685	(2,047)	140
Total accumulated other comprehensive income	19,087	3,547	170
Non-controlling interests	48,513	45,436	433
Total net assets	926,376	846,701	8,271
Total liabilities and net assets	¥ 2,843,194	¥ 2,786,470	\$ 25,385

West Japan Railway Company
Consolidated Statement of Profit or Loss

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2016	2015	2016
Operating revenues (<i>Notes 9 and 23</i>)	¥ 1,451,300	¥ 1,350,336	\$ 12,958
Operating expenses:			
Transportation, other services and cost of sales (<i>Note 9</i>)	1,084,891	1,028,221	9,686
Selling, general and administrative expenses (<i>Note 18</i>)	184,869	182,340	1,650
	<u>1,269,760</u>	<u>1,210,562</u>	<u>11,337</u>
Operating income (<i>Notes 9 and 23</i>)	181,539	139,774	1,620
Other income (expenses):			
Interest and dividend income	766	947	6
Interest expense	(24,158)	(25,898)	(215)
Equity in earnings of affiliates	1,288	1,901	11
Provision for environmental safety measures	(12,939)	–	(115)
Gain on contributions received for construction (<i>Note 8</i>)	14,487	52,395	129
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (<i>Note 8</i>)	(13,652)	(51,494)	(121)
Gain on sales of property, plant and equipment	1,898	3,005	16
Loss on sales of property, plant and equipment	(108)	(4,483)	(0)
Other, net (<i>Notes 8 and 9</i>)	(3,963)	6,563	35
	<u>(36,380)</u>	<u>(17,062)</u>	<u>(324)</u>
Profit before income taxes	145,158	122,712	1,296
Income taxes (<i>Note 13</i>):			
Current	52,259	41,334	466
Deferred	2,860	14,328	25
	<u>55,119</u>	<u>55,662</u>	<u>492</u>
Profit	90,038	67,049	803
Profit attributable to non-controlling interests	4,170	336	37
Profit attributable to owners of parent	<u>¥ 85,868</u>	<u>¥ 66,712</u>	<u>\$ 766</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Comprehensive Income

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Profit	¥ 90,038	¥ 67,049	\$ 803
Other comprehensive income (<i>Note 19</i>):			
Net unrealized holding (loss) gain on securities	(1,500)	1,937	(13)
Net unrealized deferred (loss) gain on hedging instruments	(953)	102	(8)
Retirement benefit liability adjustments (<i>Note 15</i>)	17,222	5,203	153
Other comprehensive income (loss) of affiliates accounted for by equity method attributable to owners of parent	15	(61)	0
Total other comprehensive income	<u>14,784</u>	<u>7,182</u>	<u>132</u>
Total comprehensive income	<u>¥104,823</u>	<u>¥ 74,231</u>	<u>\$ 935</u>

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Comprehensive income attributable to owners of parent	¥101,409	¥ 73,180	\$ 905
Comprehensive income attributable to non-controlling interests	3,413	1,051	30

West Japan Railway Company
Consolidated Statement of Changes in Net Assets

Year ended March 31, 2016

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred (loss) gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
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
Profit attributable to owners of parent	—	—	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 April 1, 2015	100,000	55,000	643,198	(480)	797,717	4,955	638	(2,047)	3,547	45,436	846,701
Profit attributable to owners of parent	—	—	85,868	—	85,868	—	—	—	—	—	85,868
Cash dividends	—	—	(25,185)	—	(25,185)	—	—	—	—	—	(25,185)
Increase due to merger	—	—	306	—	306	—	—	—	—	—	306
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Increase due to changes in equity in affiliates accounted for by equity method	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	68	—	—	68	—	—	—	—	—	68
Net changes in items other than shareholders' equity	—	—	—	—	—	(1,431)	(760)	17,732	15,540	3,077	18,618
Balance at March 31, 2016	¥ 100,000	¥ 55,068	¥ 704,187	¥(481)	¥858,775	¥ 3,523	¥(121)	¥ 15,685	¥ 19,087	¥48,513	¥ 926,376

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred (loss) gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	\$ 892	\$ 491	\$ 5,742	\$ (4)	\$ 7,122	\$ 44	\$ 5	\$ (18)	\$ 31	\$ 405	\$ 7,559
Profit attributable to owners of parent	—	—	766	—	766	—	—	—	—	—	766
Cash dividends	—	—	(224)	—	(224)	—	—	—	—	—	(224)
Increase due to merger	—	—	2	—	2	—	—	—	—	—	2
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Increase due to changes in equity in affiliates accounted for by equity method	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	0	—	—	0	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	—	(12)	(6)	158	138	27	166
Balance at March 31, 2016	\$ 892	\$ 491	\$ 6,287	\$ (4)	\$ 7,667	\$ 31	\$ (1)	\$ 140	\$ 170	\$ 433	\$ 8,271

See accompanying notes to consolidated financial statements.

West Japan Railway Company
Consolidated Statement of Cash Flows

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2016	2015	2016
Cash flows from operating activities			
Profit before income taxes	¥ 145,158	¥ 122,712	\$ 1,296
Adjustments for:			
Depreciation and amortization	156,624	149,590	1,398
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	13,652	51,494	121
Loss on disposal of property, plant and equipment	7,114	6,101	63
(Decrease) increase in liability for retirement benefits, net	(7,696)	4,335	(68)
Decrease in allowance for doubtful accounts	(48)	(148)	(0)
Increase in accrued bonuses for employees	611	210	5
Increase (decrease) in other accruals	11,156	(575)	99
Interest and dividend income	(766)	(947)	(6)
Interest expense	24,158	25,898	215
Equity in earnings of affiliates	(1,288)	(1,901)	(11)
Gain on contributions received for construction	(14,487)	(52,395)	(129)
Increase in notes and accounts receivable	(3,033)	(779)	(27)
Increase in inventories	(1,632)	(4,504)	(14)
Decrease in notes and accounts payable	(3,168)	(5,811)	(28)
(Decrease) increase in accrued consumption taxes	(4,866)	11,338	(43)
Other	(17)	(5,255)	(0)
Subtotal	321,472	299,361	2,870
Interest and dividend received	747	819	6
Interest paid	(24,148)	(26,039)	(215)
Income taxes paid	(38,191)	(50,527)	(340)
Net cash provided by operating activities	¥ 259,880	¥ 223,613	\$ 2,320

West Japan Railway Company

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2016

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2016	2015	2016
Cash flows from investing activities			
Payments for time deposits with a maturity in excess of three months	¥ (266)	¥ (231)	\$ (2)
Proceeds from time deposits with a maturity in excess of three months	231	231	2
Purchases of property, plant and equipment	(258,616)	(239,680)	(2,309)
Proceeds from sales of property, plant and equipment	24,243	2,678	216
Contributions received for construction	16,652	27,816	148
Purchases of investments in securities	(9,739)	(1,404)	(86)
Proceeds from sales of investments in securities	69	304	0
Net (increase) decrease in loans receivable	(3,839)	21	(34)
Other	(1,953)	(2,647)	(17)
Net cash used in investing activities	(233,219)	(212,912)	(2,082)
Cash flows from financing activities			
Net (decrease) increase in short-term loans	(1,546)	221	(13)
Proceeds from long-term loans	64,400	67,200	575
Repayment of long-term loans	(48,129)	(25,656)	(429)
Proceeds from issuance of bonds	35,000	40,000	312
Redemption of bonds	(20,000)	(20,000)	(178)
Repayment of long-term payables	(33,633)	(38,114)	(300)
Purchases of treasury stock	(0)	-	(0)
Cash dividends paid to owners of parent	(25,197)	(23,249)	(224)
Cash dividends paid to non-controlling interests	(123)	(143)	(1)
Other	(2,085)	1,432	(18)
Net cash (used in) provided by financing activities	(31,315)	1,689	(279)
Net (decrease) increase in cash and cash equivalents	(4,654)	12,390	(41)
Cash and cash equivalents at beginning of year	85,346	72,956	762
Cash and cash equivalents at end of year (Note 4)	¥ 80,691	¥ 85,346	\$ 720

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Notes to Consolidated Financial Statements

March 31, 2016

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, 2015 to the 2016 presentation. Such reclassifications had no effect on consolidated profit or loss or net assets.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company and its consolidated subsidiaries are incorporated and operate. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥112 = U.S.\$1.00, the exchange rate prevailing on March 31, 2016. 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

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 profit includes the Company's equity in the current profit 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

(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:	Principally the retail cost method or the last purchase price method
Real estate for sale and work in progress:	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 8). Depreciation is determined primarily by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures included in buildings and structures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income.

(7) *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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

(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 in the same manner 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) Provision for employees' bonuses

Provision for employees' bonuses is 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

(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.

In calculating the retirement benefit obligations, the benefit formula basis is applied for the attribution of expected retirement benefits to each period up to the end of the current year.

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

Provision for environmental safety measures is provided, at a reasonably estimated amount, for expected expenditures corresponding to the disposal to polychlorinated biphenyl and other wastes held by the Company and certain consolidated subsidiaries.

(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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

(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 (the "allocation method"). 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 (the "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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

2. Accounting Change

The Company and its consolidated subsidiaries adopted “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No.21 revised on September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22 revised on September 13, 2013) and “Accounting Standard for Business Divestitures” (ASBJ Statement No.7 revised on September 13, 2013) effective from April 1, 2015.

With the application of the above standards, any differences resulting from changes in ownership interests in its subsidiaries are accounted for as changes in capital surplus as long as the parent company retains control over its subsidiaries, and acquisition related costs are charged to expenses for the period in which the costs are incurred and the related services received. For business combinations occurring on or after April 1, 2015, if the initial accounting for the business combination has not been completed by the issuance of the consolidated financial statements subsequent to the businesses combination, provisional amounts are disclosed in the consolidated financial statements for any items for which the accounting is incomplete. Any adjustments to the provisional amounts based on new information or facts and circumstances are treated as if the accounting for the business combination had been completed at the acquisition date. In addition, the presentation of the consolidated statement of profit or loss was changed and the reference to “minority interests” was changed to “non-controlling interests.” In order to reflect this change in presentation, certain accounts in the prior year’s consolidated financial statements have been reclassified to conform to the current period’s presentation.

“Accounting Standard for Business Combinations” and related guidance were applied in accordance with the transitional treatment specified in Section 58-2 (4) of “Accounting Standard for Business Combinations,” Section 44-5 (4) of “Accounting Standard for Consolidated Financial Statements,” and Section 57-4 (4) of “Accounting Standard for Business Divestitures,” with prospective application of these accounting standards effective from April 1, 2015.

Cash flows related to the acquisition or sale of shares of a subsidiary by the Company, where such acquisition or sale would not result in a change in the scope of consolidation, are included in “Cash flows from financing activities” and cash flows related to costs for acquiring shares of a subsidiary by the Company, where such acquisition would result in a change in the scope of consolidation, or the costs for the acquisition or sale of shares of a subsidiary by the Company, where such acquisition or sale would not result in a change in the scope of consolidation, are included in “Cash flows from operating activities” in the consolidated statement of cash flows from the year ended March 31, 2016.

The effects on the consolidated financial statements and per share information as of and for the year ended March 31, 2016 were immaterial.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

3. Change in Accounting Estimates

The Company and its consolidated subsidiaries have recorded a provision for environmental safety measures to meet expenditures for the disposal of polychlorinated biphenyl and other wastes (“PCB”). Effective from April 1, 2015, because it has also become possible to reasonably estimate the expense for the disposition of low-concentration PCB, the Company has started to include the estimated expenses for the disposition of low-concentration PCB and other related costs in “provision for environmental safety measures” under other expenses in the consolidated statement of profit or loss from the year ended March 31, 2016.

As a result, profit before income taxes for the year ended March 31, 2016 decreased by ¥12,939 million (\$115 million).

4. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2016 and 2015 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:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Cash and deposits	¥ 45,973	¥ 53,592	\$ 410
Time deposits with original maturities in excess of three months included in cash and deposits	(281)	(245)	(2)
Certificate of deposits with the original maturity within three months included in short-term investments	35,000	32,000	312
Cash and cash equivalents	<u>¥ 80,691</u>	<u>¥ 85,346</u>	<u>\$ 720</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

5. 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, 2016 and 2015. 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.

Marketable securities classified as other securities at March 31, 2016 and 2015 are summarized as follows:

	<i>Millions of yen</i>					
	2016			2015		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 11,563	¥ 6,341	¥ 5,222	¥ 16,078	¥ 8,648	¥ 7,430
Debt securities:						
Government bonds	276	263	13	264	255	9
Corporate bonds	12	12	0	19	18	0
Subtotal	11,853	6,617	5,236	16,362	8,922	7,439
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	2,131	2,307	(175)	-	-	-
Other	35,000	35,000	-	32,000	32,000	-
Subtotal	37,131	37,307	(175)	32,000	32,000	-
Total	<u>¥ 48,984</u>	<u>¥ 43,924</u>	<u>¥ 5,060</u>	<u>¥ 48,362</u>	<u>¥ 40,922</u>	<u>¥ 7,439</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

5. Short-Term Investments and Investments in Securities (continued)

	<i>Millions of U.S. dollars</i>		
	2016		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 103	\$ 56	\$ 46
Debt securities:			
Government bonds	2	2	0
Corporate bonds	0	0	0
Subtotal	105	59	46
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	19	20	(1)
Other	312	312	-
Subtotal	331	333	(1)
Total	\$ 437	\$ 392	\$ 45

6. Inventories

Inventories at March 31, 2016 and 2015 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
	Merchandise and real estate for sale	¥ 12,150	¥ 9,354
Contracts in process	27,672	29,714	247
Rails, materials and supplies	19,563	18,685	174
	¥ 59,387	¥ 57,755	\$ 530

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2016 and 2015 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Investments in:			
Unconsolidated subsidiaries	¥ 9,949	¥ 9,868	\$ 88
Affiliates	43,110	32,980	384
	<u>¥ 53,060</u>	<u>¥ 42,848</u>	<u>\$ 473</u>

8. 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.

For railway services, the accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2016 and 2015 amounted to ¥684,654 million (\$6,112 million) and ¥673,410 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, 2016 and 2015 totaled ¥727 million (\$6 million) and ¥1,662 million, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

9. 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 ¥43,678 million (\$389 million) and ¥38,697 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015 are as follows:

<i>Millions of yen</i>			
2016			
Carrying value			Fair value
As of April 1, 2015	Net change	As of March 31, 2016	As of March 31, 2016
¥ 166,209	¥ 32,904	¥ 199,114	¥ 423,325

<i>Millions of yen</i>			
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

<i>Millions of U.S. dollars</i>			
2016			
Carrying value			Fair value
As of April 1, 2015	Net change	As of March 31, 2016	As of March 31, 2016
\$ 1,484	\$ 293	\$ 1,777	\$ 3,779

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, 2016 and 2015 included increases mainly due to acquisitions of real estate properties in the amounts of ¥44,803 million (\$400 million) and ¥15,009 million and decreases mainly due to depreciation in the amounts of ¥9,399 million (\$83 million) and ¥7,525 million, respectively.
3. The fair value of the main real estate properties is estimated in accordance with appraisal standards for valuing real estate. The fair value of the other real estate properties is based on the carrying value or a different valuation method because those values are considered to reasonably reflect the fair value.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

10. Short-Term Loans and Long-Term Debt

Short-term loans represent loans on deeds due within one year. The annual interest rates applicable to such loans outstanding at March 31, 2016 and 2015 ranged from 0.21% to 0.48% and from 0.23% to 0.52%, respectively.

Long-term debt at March 31, 2016 and 2015 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Secured West Japan Railway bonds, payable in yen, at rates ranging from 2.41% to 3.45%, due from 2017 through 2019	¥ 90,000	¥ 110,000	\$ 803
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.52% to 2.49%, due from 2019 through 2056	404,979	369,977	3,615
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.66% to 3.15%, due in installments from 2017 through 2021	20,189	37,663	180
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.10% to 2.15%, due in installments from 2017 through 2046	333,700	298,800	2,979
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due in installments from 2017 through 2019	1,520	2,130	13
Finance lease obligations, at rates ranging from 0.00% to 4.71%, due in installments from 2017 through 2034	7,586	8,053	67
Other	13,282	13,796	118
	<u>871,257</u>	<u>840,420</u>	<u>7,779</u>
Less current portion	<u>(64,579)</u>	<u>(48,645)</u>	<u>(576)</u>
	<u>¥ 806,678</u>	<u>¥ 791,775</u>	<u>\$ 7,202</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

10. Short-Term Loans and Long-Term Debt (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2016 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 64,579	\$ 576
2018	82,328	735
2019	57,674	514
2020	76,626	684
2021	76,726	685
2022 and thereafter	513,343	4,583
	¥ 871,277	\$ 7,779

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, 2016 and 2015 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,160
Credit utilized	-	-	-
Available credit	¥ 130,000	¥ 130,000	\$ 1,160

11. Pledged Assets

Assets pledged at March 31, 2016 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2016	
Bank deposits included in cash and deposits	¥ 246	\$ 2
Investments in other securities	681	6
Land	159	1
Buildings and structures, net	15,526	138
Other assets	17	0
	¥ 16,631	\$ 148

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

11. Pledged Assets (continued)

The indebtedness secured by such collateral at March 31, 2016 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2016	
Notes and accounts payable	¥ 56	\$ 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	910	8
	¥ 1,576	\$ 14

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 (\$982 million).

12. Long-Term Payables

Long-term payables at March 31, 2016 and 2015 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Variable interest portion, due in installments from 2017 through 2018	¥ 13,978	¥ 31,925	\$ 124
Fixed interest portion at 6.35% and 6.55%, due in installments from 2017 through 2052	120,695	135,738	1,077
Other	3,511	4,185	31
	138,185	171,850	1,233
Less current portion	(30,712)	(33,645)	(274)
	¥ 107,472	¥ 138,205	\$ 959

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

12. Long-Term Payables (continued)

The average variable interest rate for the years ended March 31, 2016 and 2015 was 4.13%.

The aggregate annual maturities of long-term payables subsequent to March 31, 2016 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 30,712	\$ 274
2018	1,510	13
2019	1,578	14
2020	1,644	14
2021	1,574	14
2022 and thereafter	101,163	903
	<u>¥ 138,185</u>	<u>\$ 1,233</u>

13. Income Taxes

The aggregate statutory tax rates applicable to the Company and its consolidated subsidiaries were 33.06% and 35.64% for the years ended March 31, 2016 and 2015, respectively.

A reconciliation of the statutory tax rates and effective tax rates for the years ended March 31, 2016 and 2015 as a percentage of profit before income taxes is as follows:

	<u>2016</u>	<u>2015</u>
Statutory tax rates	33.06 %	35.64 %
Effect of:		
Decrease in deferred tax assets resulting from changes in statutory tax rates	5.27	10.89
Change in valuation allowance	(0.31)	(1.47)
Per capita portion of inhabitants' taxes	0.52	0.52
Permanent non-deductible expenses	0.32	0.33
Other	(0.88)	(0.55)
Effective tax rates	<u>37.97 %</u>	<u>45.36 %</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

13. Income Taxes (continued)

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2016 and 2015 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Deferred tax assets:			
Provision for employees' bonuses	¥ 12,020	¥ 12,387	\$ 107
Accrued enterprise taxes included in accrued expenses	2,727	1,744	24
Liability for retirement benefits	105,147	121,674	938
Unrealized gain on property, plant and equipment	12,651	11,506	112
Tax loss carryforwards	8,088	8,940	72
Other	31,977	28,984	285
Gross deferred tax assets	172,613	185,238	1,541
Valuation allowance	(14,194)	(15,020)	(126)
Total deferred tax assets	158,418	170,218	1,414
Deferred tax liabilities:			
Unrealized holding gain on securities	(1,930)	(2,809)	(17)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,641)	(12,405)	(103)
Gain on valuation of assets of consolidated subsidiaries	(1,202)	(1,551)	(10)
Other	(4,067)	(4,709)	(36)
Total deferred tax liabilities	(18,841)	(21,476)	(168)
Deferred tax assets, net	¥ 139,576	¥ 148,742	\$ 1,246

The “Act to Partially Revise the Income Tax Act and Others” and the “Act to Partially Revise the Local Tax Act and Others” were enacted on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.26% to 30.86% for the temporary differences expected to be realized or settled in the years beginning between April 1, 2016 and March 31, 2018 and from 32.26% to 30.62% for the temporary differences expected to be realized or settled beginning from April 1, 2018, 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 ¥6,105 million (\$54 million) and increase deferred income tax expense by ¥6,573 million (\$58 million) as of and for the year ended March 31, 2016.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Leases

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

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2016 and 2015, 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:

	<i>Millions of yen</i>		
	2016		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:			
Buildings and structures	¥ 102	¥ 84	¥ 17
Machinery, equipment and vehicles	186	129	57
	¥ 288	¥ 213	¥ 75

	<i>Millions of yen</i>		
	2015		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:			
Buildings and structures	¥ 102	¥ 74	¥ 27
Machinery, equipment and vehicles	186	114	71
Tools, furniture and fixtures	94	87	6
	¥ 383	¥ 276	¥ 106

	<i>Millions of U.S. dollars</i>		
	2016		
	Acquisition costs	Accumulated depreciation/ amortization	Net book value
Leased assets:			
Buildings and structures	\$ 0	\$ 0	\$ 0
Machinery, equipment and vehicles	1	1	0
	\$ 2	\$ 1	\$ 0

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

Lease payments relating to finance leases accounted for in the same manner as operating leases for the years ended March 31, 2016 and 2015 totaled ¥27 million (\$0 million) and ¥92 million, respectively. These amounts are equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2016 for finance leases accounted for in the same manner as operating leases are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 24	\$ 0
2018 and thereafter	50	0
	¥ 75	\$ 0

Future minimum lease payments subsequent to March 31, 2016 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 1,236	\$ 11
2018 and thereafter	12,948	115
	¥ 14,185	\$ 126

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2016 and 2015 for finance lease transactions in which certain consolidated subsidiaries of the Company are the lessors and which are currently accounted for in the same manner as operating leases:

	<i>Millions of yen</i>					
	2016			2015		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment and vehicles	¥ 1,151	¥ 815	¥ 336	¥ 1,606	¥ 1,214	¥ 391
Tools, furniture and fixtures	123	117	5	309	253	56
	<u>¥ 1,275</u>	<u>¥ 933</u>	<u>¥ 341</u>	<u>¥ 1,916</u>	<u>¥ 1,468</u>	<u>¥ 447</u>

	<i>Millions of U.S. dollars</i>		
	2016		
	Acquisition costs	Accumulated depreciation	Net book value
Leased assets:			
Machinery, equipment and vehicles	\$ 10	\$ 7	\$ 3
Tools, furniture and fixtures	1	1	0
	<u>\$ 11</u>	<u>\$ 8</u>	<u>\$ 3</u>

Lease receipts relating to finance leases accounted for in the same manner as operating leases for the years ended March 31, 2016 and 2015 were ¥113 million (\$1 million) and ¥186 million, respectively. Depreciation expense of the leased assets for the years ended March 31, 2016 and 2015 computed by the straight-line method over the respective lease terms amounted to ¥99 million (\$0 million) and ¥174 million, respectively.

Future minimum lease receipts (including the interest portion thereon) subsequent to March 31, 2016 for finance leases accounted for as operating leases are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 89	\$ 0
2018 and thereafter	214	1
	<u>¥ 303</u>	<u>\$ 2</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Leases (continued)

Future minimum lease receipts subsequent to March 31, 2016 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2017	¥ 273	\$ 2
2018 and thereafter	1,738	15
	<u>¥ 2,012</u>	<u>\$ 17</u>

15. Retirement Benefit Plans

The Company and its consolidated subsidiaries have lump-sum severance and retirement benefit plans. Certain consolidated subsidiaries have a small-and-medium-sized enterprise mutual aid plan (a 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, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Retirement benefit obligations at beginning of year	¥379,812	¥328,182	\$ 3,391
Cumulative effect of change in accounting principle	–	50,777	–
Balance at beginning of year, as adjusted	379,812	378,960	3,391
Service cost	13,582	13,827	121
Interest cost	3,058	3,122	27
Actuarial gain	(21,429)	(2,861)	(191)
Retirement benefits paid	(25,833)	(17,168)	(230)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	891	337	7
Increase resulting from newly consolidated subsidiaries	–	2,689	–
Other	(1,660)	904	(14)
Retirement benefit obligations at end of year	<u>¥348,422</u>	<u>¥379,812</u>	<u>\$ 3,110</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

15. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied, during the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Plan assets at beginning of year	¥ 12,327	¥ 7,896	\$ 110
Expected return on plan assets	267	202	2
Actuarial (loss) gain	(390)	912	(3)
Contributions paid	1,444	1,372	12
Retirement benefits paid	(599)	(494)	(5)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	941	-	8
Increase resulting from newly consolidated subsidiaries	-	2,437	-
Plan assets at end of year	<u>¥ 13,990</u>	<u>¥ 12,327</u>	<u>\$ 124</u>

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Liability for retirement benefits at beginning of year	¥ 5,207	¥ 5,067	\$ 46
Retirement benefit expenses	887	1,038	7
Retirement benefits paid	(451)	(391)	(4)
Contributions paid	(150)	(254)	(1)
Reclassification of liability for retirement benefits resulting from change from Simplified Method	49	(337)	0
Increase resulting from newly consolidated subsidiaries	-	85	-
Liability for retirement benefits at end of year	<u>¥ 5,543</u>	<u>¥ 5,207</u>	<u>\$ 49</u>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2015 for the Company's and its consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method was applied:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Funded retirement benefit obligations	¥ 17,426	¥ 14,600	\$ 155
Plan assets at fair value	(15,083)	(14,276)	(134)
	2,343	324	20
Unfunded retirement benefit obligations	337,632	372,368	3,014
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 339,975</u>	<u>¥ 372,693</u>	<u>\$ 3,035</u>
Liability for retirement benefits	341,359	375,285	3,047
Asset for retirement benefits	(1,384)	(2,592)	(12)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 339,975</u>	<u>¥ 372,693</u>	<u>\$ 3,035</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

15. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Service cost	¥ 13,582	¥ 13,827	\$ 121
Interest cost	3,058	3,122	27
Expected return on plan assets	(267)	(202)	(2)
Amortization of unrecognized actuarial loss	3,183	3,548	28
Amortization of prior service cost	(1)	458	(0)
Amortization of net retirement benefits at transition	706	706	6
Retirement benefit expenses calculated by the Simplified Method	887	1,038	7
Other	61	432	0
Retirement benefit expenses under defined benefit pension plans	<u>¥ 21,209</u>	<u>¥ 22,931</u>	<u>\$ 189</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the years ended March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Prior service cost	¥ (1)	¥ (3)	\$ (0)
Actuarial loss	24,221	7,492	216
Net retirement benefit at transition	706	706	6
	<u>¥ 24,925</u>	<u>¥ 8,195</u>	<u>\$ 222</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2016 and 2015 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Unrecognized prior service cost	¥ 0	¥ 2	\$ 0
Unrecognized actuarial gain (loss)	22,235	(1,986)	198
Unrecognized net retirement benefits at transition	-	(706)	-
	<u>¥ 22,235</u>	<u>¥ (2,690)</u>	<u>\$ 198</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

15. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2016 and 2015 are as follows:

	2016	2015
Debt securities	41%	47%
Equity securities	24	31
Other	35	21
Total	100%	100%

The expected long-term rate of return on plan assets has been determined considering the anticipated allocation to each asset class at present and in the future, and the expected long-term rate of return on assets held in each category at present and in the future.

The assumptions used in accounting for the above retirement benefit plans for the years ended March 31, 2016 and 2015 are principally as follows:

	2016	2015
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	3.0%	3.0%

Total contributions required to be paid by the Company and its consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2016 and 2015 amounted to ¥392 million (\$3 million) and ¥374 million, respectively.

16. Contingent Liabilities

At March 31, 2016, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans, accounts payable-trade and other obligations of unconsolidated subsidiaries, affiliates and a third party in the aggregate amount of ¥15,156 million (\$135 million).

At March 31, 2016, the Company was contingently liable for guarantees for debt assumption agreement on corporate bonds originally issued by the Company in the amount of ¥20,000 million (\$178 million).

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

17. 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 additional paid-in capital included in capital surplus amounted to ¥55,000 million (\$491 million) and legal reserve included in retained earnings amounted to ¥11,327 million (\$101 million) at March 31, 2016 and 2015, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2016 and 2015 are summarized as follows:

	Number of shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	193,735,000	–	–	193,735,000
Treasury stock	129,581	268	–	129,849

	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

The increase in treasury stock during the year ended March 31, 2016 was due to the purchases of 67 shares less than one trading unit and changes in equity in affiliates accounted for by the equity method of 201 shares.

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.

18. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥9,238 million (\$82 million) and ¥10,402 million for the years ended March 31, 2016 and 2015, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

19. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2016 and 2015.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (2,379)	¥ 3,053	\$ (21)
Reclassification adjustments for gain included in consolidated statement of profit or loss	—	(34)	—
Before tax effect	(2,379)	3,019	(21)
Tax effect	878	(1,082)	7
Total	(1,500)	1,937	(13)
Net unrealized deferred (loss) gain on hedging instruments:			
Amount arising during the year	(1,472)	117	(13)
Before tax effect	(1,472)	117	(13)
Tax effect	518	(15)	4
Total	(953)	102	(8)
Retirement benefit liability adjustments:			
Amount arising during the year	21,038	3,481	187
Reclassification adjustments for loss included in consolidated statement of profit or loss	3,887	4,713	34
Before tax effect	24,925	8,195	222
Tax effect	(7,703)	(2,991)	(68)
Total	17,222	5,203	153
Other comprehensive income (loss) of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	(21)	(110)	(0)
Reclassification adjustments for gain included in consolidated statement of profit or loss	37	49	0
Total	15	(61)	0
Total other comprehensive income	¥ 14,784	¥ 7,182	\$132

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

20. Amounts per Share

Amounts per share at March 31, 2016 and 2015 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2016	2015	2016
Net assets	¥4,534.29	¥4,138.65	\$40.48
Profit attributable to owners of parent	443.53	344.58	3.96
Cash dividends	135.00	125.00	1.20

Net assets per share have been computed based on the number of shares of common stock outstanding at each balance sheet date.

Profit attributable to owners of parent per share has been computed based on the profit available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted profit attributable to owners of parent per share has not been presented for the years ended March 31, 2016 and 2015 since the Company had no potentially dilutive stock at March 31, 2016 and 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments

Overview

(1) Policy for financial instruments

The Company and its consolidated subsidiaries (collectively, the “Group”) raise funds mainly through bonds and bank borrowings mainly for the purpose of settlement of existing payables and capital investment 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 price volatility 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 thirty nine years from March 31, 2016. 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 five years from March 31, 2016. 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).

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Overview (continued)

(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 at an early stage 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 principally 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Overview (continued)

(3) Risk management for financial instruments (continued)

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

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, subsidiaries and affiliates, the Company prepares and updates their cash flow plans on a timely basis to manage liquidity risk. In addition, the Company has kept the liquidity level stable to a certain extent by entering into commitment line contracts to enable the Company to raise funds in accordance with the policies determined in advance.

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

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2016 and 2015 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to 2 in Note 21).

	<i>Millions of yen</i>		
	2016		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 45,973	¥ 45,973	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	668	668	–
Trade	127,527	127,527	–
Short-term investments and investments in securities:			
Investments in affiliates	2,422	2,760	337
Other securities	48,984	48,984	–
Liabilities:			
Short-term loans	(14,775)	(14,775)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,891)	(2,891)	–
Trade	(164,816)	(164,816)	–
Income taxes payable	(32,648)	(32,648)	–
Accrued expenses	(4,154)	(4,154)	–
Deposits (component of deposits and advances received)	(77,795)	(77,795)	–
Long-term debt (including current portion)	(863,670)	(953,935)	(90,264)
Long-term payables (including current portion)	(138,185)	(273,035)	(134,849)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(227)	(227)	–

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of yen</i>		
	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 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	–

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2016		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	\$ 410	\$ 410	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	5	5	–
Trade	1,138	1,138	–
Short-term investments and investments in securities:			
Investments in affiliates	21	24	(3)
Other securities	437	437	–
Liabilities:			
Short-term loans	(131)	(131)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(25)	(25)	–
Trade	(1,471)	(1,471)	–
Income taxes payable	(291)	(291)	–
Accrued expenses	(37)	(37)	–
Deposits (component of deposits and advances received)	(694)	(694)	–
Long-term debt (including current portion)	(7,711)	(8,517)	(805)
Long-term payables (including current portion)	(1,233)	(2,437)	(1,204)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(2)	(2)	–

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

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, income taxes payable and accrued expense

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 22.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

2. Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2016 and 2015 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2016	2015	2016
Investments in securities			
Unlisted stocks	¥ 53,140	¥ 42,992	\$ 474
Other	0	3	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 and deposits, receivables, short-term investments and investments in securities with maturities at March 31, 2016 and 2015 is as follows:

	<i>Millions of yen</i>		
	2016		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 35,198	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	668	–	–
Trade	127,494	32	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposits)	35,000	–	–
Other securities with maturities (national government bonds)	–	127	146
Other securities with maturities (corporate bonds)	6	6	–
Total	¥ 198,367	¥ 166	¥ 146

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2016		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 314	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	5	–	–
Trade	1,138	0	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposit)	312	–	–
Other securities with maturities (national government bonds)	–	1	1
Other securities with maturities (corporate bonds)	0	0	–
Total	<u>\$ 1,771</u>	<u>\$ 1</u>	<u>\$ 1</u>

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2016 and 2015.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2016 and 2015 were as follows:

Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	2016		Estimated fair value	
			Notional amount	Notional amount (Over 1 year)		
Deferral hedge accounting	Forward foreign exchange contracts Purchase					
		Euro	¥ 5,172	¥ –	¥ (97) (*1)	
		U.S. dollars	Accounts payable	3,458	–	(52) (*1)
		Other	(Forecasted transaction)	2,051	–	(77) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Purchase					
		Euro	418	–	(*2)	
		U.S. dollars	Accounts payable	410	–	(*2)
		Other		178	–	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion					
		Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	3,100	–	(*2)
			¥ 14,790	¥ –	¥ (227)	

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Derivative Transactions (continued)

Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2015		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Accounts payable	¥ 8,746	¥ –	¥ 543 (*1)
	U.S. dollars	(Forecasted	4,558	–	574 (*1)
	Other	transaction)	2,722	–	126 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Accounts payable	839	–	(*2)
	U.S. dollars		502	–	(*2)
	Other		263	–	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion				
	Pay Yen / Receive U.S. dollars (Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	3,100	3,100	(*2)
			¥ 20,733	¥ 3,100	¥ 1,244

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Derivative Transactions (continued)

Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2016		
			<i>Millions of U.S. dollars</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Purchase				
	Euro	Accounts payable (Forecasted transaction)	\$ 46	\$ –	\$(0) (*1)
	U.S. dollars		30	–	(0) (*1)
Other	18		–	(0) (*1)	
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Purchase				
	Euro	Accounts payable	3	–	(*2)
	U.S. dollars		3	–	(*2)
Other	1		–	(*2)	
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion				
	Pay Yen / Receive U.S. dollars				
	(Interest-rate conversion: Pay fixed / Receive floating)	Long-term loans included in long-term debt	27	–	(*2)
			\$ 132	\$ –	\$ 2

(*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 current portion of long-term payable or long-term loans, their fair values were included in current portion of long-term payable or long-term loans.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Derivative Transactions (continued)

Interest-rate related transactions

			2016		
			<i>Millions of yen</i>		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans included in long-term debt	¥ 37,000	37,000	(*)
			2015		
			<i>Millions of yen</i>		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans included in long-term debt	¥ 7,000	-	(*)
			2016		
			<i>Millions of U.S. dollars</i>		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Special treatment of interest-rate swap contracts	Interest-rate swaps Pay fixed / Receive floating	Long-term loans included in long-term debt	\$ 330	-	(*)

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Segment Information

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

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

The Company and its consolidated subsidiaries are composed of three main business segments and those reportable segments are "Transportation," "Sales of goods and food services" and "Real estate." "Transportation" involves railway, bus, and ferry services. "Sales of goods and food services" involves department store, restaurant and wholesale businesses. "Real estate" involves sales or leasing of real estate and management of shopping malls.

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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Segment Information (continued)

Reportable segment information for the years ended March 31, 2016 and 2015 is outlined as follows:

	<i>Millions of yen</i>						
	2016						
	Reportable segments					Elimination and adjustments	Consolidated
Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 928,782	¥ 232,071	¥108,897	¥ 181,548	¥ 1,451,300	¥ –	¥ 1,451,300
Intersegment operating revenues or transfers	18,070	8,498	18,918	276,999	322,486	(322,486)	–
Total	<u>¥ 946,853</u>	<u>¥ 240,569</u>	<u>¥127,815</u>	<u>¥ 458,548</u>	<u>¥ 1,773,786</u>	<u>¥ (322,486)</u>	<u>¥ 1,451,300</u>
Segment income	¥ 125,190	¥ 5,320	¥ 32,725	¥ 22,427	¥ 185,663	¥ (4,123)	¥ 181,539
Segment assets	¥ 2,025,476	¥ 100,395	¥426,701	¥ 399,681	¥ 2,952,254	¥ (109,059)	¥ 2,843,194
Other items:							
Depreciation and amortization	¥ 131,609	¥ 5,568	¥ 17,159	¥ 2,286	¥ 156,624	¥ –	¥ 156,624
Investment in affiliates accounted for by the equity method	22,917	–	–	10,600	33,517	–	33,517
Increase in tangible and intangible fixed assets	214,221	6,291	24,679	9,355	254,547	–	254,547

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Segment Information (continued)

		<i>Millions of yen</i>						
		2015						
		Reportable segments						
		Transporta- tion	Sales of goods and food services	Real estate	Other	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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Segment Information (continued)

	<i>Millions of U.S. dollars</i>						
	2016						
	Reportable segments					Elimination and adjustments	Consolidated
	Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal		
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	\$ 8,292	\$ 2,072	\$ 972	\$ 1,620	\$ 12,958	\$ –	\$ 12,958
Intersegment operating revenues or transfers	161	75	168	2,473	2,879	(2,879)	–
Total	<u>\$ 8,454</u>	<u>\$ 2,147</u>	<u>\$ 1,141</u>	<u>\$ 4,094</u>	<u>\$ 15,837</u>	<u>\$ (2,879)</u>	<u>\$ 12,958</u>
Segment income	\$ 1,117	\$ 47	\$ 292	\$ 200	\$ 1,657	\$ (36)	\$ 1,620
Segment assets	\$ 18,084	\$ 896	\$ 3,809	\$ 3,568	\$ 26,359	\$ (973)	\$ 25,385
Other items:							
Depreciation and amortization	\$ 1,175	\$ 49	\$ 153	\$ 20	\$ 1,398	\$ –	\$ 1,398
Investment in affiliates accounted for by the equity method	204	–	–	94	299	–	299
Increase in tangible and intangible fixed assets	1,912	56	220	83	2,272	–	2,272

“Other” involves business segments not included in the reportable segments, such as “Hotel services,” “Travel agent services” and “Construction.”

The adjustments of segment income in the amounts of ¥4,123 million (\$36 million) and ¥3,326 million for the years ended March 31, 2016 and 2015, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥109,059 million (\$973 million) and ¥120,309 million, include corporate assets not allocated to reportable segments of ¥204,266 million (\$1,823 million) and ¥202,589 million, and eliminations of intersegment transactions of ¥313,326 million (\$2,797 million) and ¥322,898 million at March 31, 2016 and 2015, respectively.

Segment income is reconciled to operating income in the consolidated statement of profit or loss.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Segment Information (continued)

Gain on negative goodwill in Other businesses arising from the business combination amounted to ¥6,403 million (\$53 million) for the year ended March 31, 2015.

Information on each product and service was omitted for the years ended March 31, 2016 and 2015 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, 2016 and 2015 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 for the year ended March 31, 2016 and 2015 because the amounts were immaterial.

Information on amortization of goodwill and the remaining balance by reportable segment as of and was omitted for the years ended March 31, 2016 and 2015 because the amounts were immaterial.

24. Subsequent Event

Issuance of bonds

On April 14, 2016, the Company decided to issue corporate bonds, based on a resolution approved at a meeting of the Board of Directors held on March 16, 2016. Details of the bond issuance are as follows:

Description	The 43rd Series of West Japan Railway Bonds
Issuance date	April 21, 2016
Maturity date	April 20, 2046
Total issuance amount	¥10,000 million (\$89 million)
Issue price	¥100 (\$0.89) with a face value of ¥100 (\$0.89)
Annual interest rate	0.714%
Type	Unsecured
Usage of funds	Repayment of long-term payables for purchase of railway facilities

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Supplemental Information

Approval of the plan for provision for large-scale renovation of Shinkansen infrastructure

With respect to the Sanyo Shinkansen Line (between Shin-Osaka and Hakata), the need for large-scale renovation to ensure reliable transportation going forward was recognized and the Company's plan was approved by the Minister of Land, Infrastructure, Transport and Tourism of Japan for large-scale renovation of the Shinkansen infrastructure under Article 16, Paragraph 1 of the "Nationwide Shinkansen Railway Development Act" on March 29, 2016.

As a result, compared with the situation if a provision for large-scale renovation would not be recorded, operating expenses are expected to increase by ¥4,166 million (\$37 million) in each fiscal year between April 1, 2016 and March 31, 2028 due to recognizing the provision. Subsequently, compared with the situation if a provision for large-scale renovation would not be recorded, operating expenses are expected to decrease by ¥5,000 million (\$44 million) in each fiscal year between April 1, 2028 and March 31, 2038 due to recognizing a reversal of the provision.