

# **Consolidated Financial Statements**

## **West Japan Railway Company**

*Year ended March 31, 2018*  
*with Independent Auditor's Report*

West Japan Railway Company  
Consolidated Financial Statements

Year ended March 31, 2018

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**Consolidated Financial Statements**

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## Independent Auditor's Report

The Board of Directors  
West Japan Railway Company

We have audited the accompanying consolidated financial statements of West Japan Railway Company and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

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

June 20, 2018  
Osaka, Japan

# West Japan Railway Company

## Consolidated Balance Sheet

As of March 31, 2018

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2018	2017	2018
<b>Assets</b>			
Current assets:			
Cash and deposits ( <i>Notes 2, 10 and 20</i> )	¥ 82,995	¥ 63,578	\$ 782
Short-term investments ( <i>Notes 2, 3 and 20</i> )	18,700	–	176
Notes and accounts receivable ( <i>Notes 20 and 21</i> ):			
Unconsolidated subsidiaries and affiliates	820	774	7
Trade	144,291	131,714	1,361
Less allowance for doubtful accounts	(815)	(837)	(7)
Inventories ( <i>Note 4</i> )	101,258	82,802	955
Income taxes refundable ( <i>Note 12</i> )	–	13	–
Deferred income taxes ( <i>Note 12</i> )	19,547	17,582	184
Prepaid expenses and other current assets	52,291	56,237	493
Total current assets	419,089	351,864	3,953
Investments:			
Unconsolidated subsidiaries and affiliates ( <i>Notes 5 and 20</i> )	59,943	55,907	565
Other securities ( <i>Notes 3, 10 and 20</i> )	26,873	24,559	253
Total investments	86,817	80,467	819
Property, plant and equipment, at cost ( <i>Notes 6, 7, 8 and 10</i> ):			
Land	758,987	754,274	7,160
Buildings and structures	3,313,924	3,275,914	31,263
Machinery, equipment and vehicles	1,503,517	1,476,976	14,184
Tools, furniture and fixtures	146,311	140,741	1,380
Construction in progress	73,063	54,129	689
	5,795,803	5,702,036	54,677
Less accumulated depreciation	(3,431,266)	(3,341,972)	(32,370)
Property, plant and equipment, net	2,364,537	2,360,063	22,306
Deferred income taxes ( <i>Note 12</i> )	123,648	130,777	1,166
Asset for retirement benefits ( <i>Note 14</i> )	1,868	1,505	17
Other assets ( <i>Note 10</i> )	77,004	83,174	726
Total assets ( <i>Note 22</i> )	¥ 3,072,965	¥ 3,007,852	\$ 28,990

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2018	2017	2018
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term loans ( <i>Notes 9 and 20</i> )	¥ 17,252	¥ 15,908	\$ 162
Current portion of long-term debt ( <i>Notes 9, 10, 20 and 21</i> )	59,830	82,354	564
Current portion of long-term payables ( <i>Notes 11 and 20</i> )	1,580	1,512	14
Notes and accounts payable ( <i>Notes 10, 20 and 21</i> ):			
Unconsolidated subsidiaries and affiliates	2,433	2,556	22
Trade	157,381	149,271	1,484
Prepaid railway fares received	38,860	37,407	366
Deposits and advances received ( <i>Note 20</i> )	125,213	102,428	1,181
Accrued expenses ( <i>Note 20</i> )	38,357	35,457	361
Income taxes payable ( <i>Notes 12 and 20</i> )	25,295	19,194	238
Provision for employees' bonuses	39,187	37,428	369
Provision for customer point programs	2,204	2,041	20
Deferred income taxes ( <i>Note 12</i> )	37	–	0
Other current liabilities	22,693	59,708	214
Total current liabilities	530,327	545,270	5,003
Long-term debt ( <i>Notes 9, 20 and 21</i> )	875,934	855,380	8,263
Long-term payables ( <i>Notes 11 and 20</i> )	104,375	105,957	984
Liability for retirement benefits ( <i>Note 14</i> )	301,783	325,085	2,847
Provision for large-scale renovation of Shinkansen infrastructure	8,333	4,166	78
Provision for environmental safety measures	15,838	18,799	149
Provision for loss on railway line liquidation	10,170	11,457	95
Provision for unutilized gift tickets	2,414	2,575	22
Deferred income taxes ( <i>Note 12</i> )	3,544	3,195	33
Other long-term liabilities	103,939	103,352	980
Total long-term liabilities	1,426,334	1,429,971	13,455
Contingent liabilities ( <i>Note 15</i> )			
Net assets:			
Shareholders' equity ( <i>Note 16</i> ):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2018 and 2017			
Issued and outstanding – 193,735,000 shares at March 31, 2018 and 2017	100,000	100,000	943
Capital surplus	56,171	55,068	529
Retained earnings ( <i>Note 23</i> )	849,925	768,358	8,018
Less treasury stock, at cost ( <i>Note 23</i> ) – 129,808 and 129,899 shares at March 31, 2018 and 2017	(481)	(481)	(4)
Total shareholders' equity	1,005,615	922,945	9,486
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	4,018	3,763	37
Net unrealized deferred gain on hedging instruments	83	188	0
Retirement benefits liability adjustments ( <i>Note 14</i> )	11,242	13,538	106
Total accumulated other comprehensive income	15,344	17,491	144
Non-controlling interests	95,343	92,173	899
Total net assets	1,116,304	1,032,610	10,531
Total liabilities and net assets	¥ 3,072,965	¥ 3,007,852	\$ 28,990

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Profit or Loss

Year ended March 31, 2018

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2018	2017	2018
Operating revenues ( <i>Notes 8 and 22</i> )	¥ 1,500,445	¥ 1,441,411	\$ 14,155
Operating expenses:			
Transportation, other services and cost of sales ( <i>Note 8</i> )	1,113,026	1,072,732	10,500
Selling, general and administrative expenses ( <i>Note 17</i> )	196,052	192,287	1,849
	<u>1,309,079</u>	<u>1,265,019</u>	<u>12,349</u>
Operating income ( <i>Notes 22</i> )	191,365	176,392	1,805
Other income (expenses):			
Interest and dividend income	703	650	6
Interest expense	(20,906)	(22,350)	(197)
Equity in earnings of affiliates	2,480	1,574	23
Provision for loss on railway line liquidation	–	(11,470)	–
Gain on contributions received for construction ( <i>Note 6</i> )	25,533	14,649	240
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment ( <i>Note 6</i> )	(24,208)	(13,858)	(228)
Loss on impairment of property, plant and equipment ( <i>Note 7</i> )	(2,391)	(5,114)	(22)
Gain on sales of property, plant and equipment	247	1,479	2
Loss on sales of property, plant and equipment	(664)	(401)	(6)
Other, net ( <i>Note 8</i> )	(1,480)	(3,797)	(13)
	<u>(20,686)</u>	<u>(38,637)</u>	<u>(195)</u>
Profit before income taxes	170,679	137,754	1,610
Income taxes ( <i>Note 12</i> ):			
Current	48,260	43,490	455
Deferred	6,400	739	60
	<u>54,661</u>	<u>44,230</u>	<u>515</u>
Profit	116,018	93,524	1,094
Profit attributable to non-controlling interests	5,524	2,235	52
Profit attributable to owners of parent	<u>¥ 110,493</u>	<u>¥ 91,288</u>	<u>\$ 1,042</u>

*See accompanying notes to consolidated financial statements.*

# West Japan Railway Company

## Consolidated Statement of Comprehensive Income

Year ended March 31, 2018

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Profit	¥ 116,018	¥ 93,524	\$1,094
Other comprehensive income (Note 18):			
Net unrealized holding gain on securities	305	249	2
Net unrealized deferred (loss) gain on hedging instruments	(132)	389	(1)
Retirement benefit liability adjustments (Note 14)	(2,089)	(2,072)	(19)
Other comprehensive income of affiliates accounted for by equity method attributable to owners of parent	<u>70</u>	<u>5</u>	<u>0</u>
Total other comprehensive loss	<u>(1,846)</u>	<u>(1,427)</u>	<u>(17)</u>
Total comprehensive income	<u>¥ 114,171</u>	<u>¥ 92,097</u>	<u>\$ 1,077</u>

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Comprehensive income attributable to owners of parent	¥108,347	¥ 89,692	\$1,022
Comprehensive income attributable to non-controlling interests	5,824	2,405	54

# West Japan Railway Company

## Consolidated Statement of Changes in Net Assets

Year ended March 31, 2018

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥ 100,000	¥ 55,068	¥ 704,187	¥(481)	¥ 858,775	¥ 3,523	¥(121)	¥ 15,685	¥ 19,087	¥ 48,513	¥ 926,376
Profit attributable to owners of parent	—	—	91,288	—	91,288	—	—	—	—	—	91,288
Cash dividends	—	—	(27,122)	—	(27,122)	—	—	—	—	—	(27,122)
Increase due to merger	—	—	5	—	5	—	—	—	—	—	5
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	(0)
Net changes in items other than shareholders' equity	—	—	—	—	—	240	310	(2,146)	(1,596)	43,659	42,063
Balance at April 1, 2017	¥ 100,000	¥ 55,068	¥ 768,358	¥(481)	¥ 922,945	¥ 3,763	¥ 188	¥ 13,538	¥ 17,491	¥ 92,173	¥ 1,032,610
Profit attributable to owners of parent	—	—	110,493	—	110,493	—	—	—	—	—	110,493
Cash dividends	—	—	(29,060)	—	(29,060)	—	—	—	—	—	(29,060)
Decrease in retained earnings resulting from change in number of consolidated subsidiaries	—	—	(2)	—	(2)	—	—	—	—	—	(2)
Increase due to merger	—	—	136	—	136	—	—	—	—	—	136
Cancellation of treasury stock	—	0	—	0	0	—	—	—	—	—	0
Increase due to changes in equity in affiliates accounted for by equity method	—	—	—	0	0	—	—	—	—	—	0
Purchases of shares of consolidated subsidiaries	—	1,102	—	—	1,102	—	—	—	—	—	1,102
Net changes in items other than shareholders' equity	—	—	—	—	—	255	(105)	(2,296)	(2,146)	3,169	1,023
Balance at March 31, 2018	¥ 100,000	¥ 56,171	¥ 849,925	¥(481)	¥ 1,005,615	¥ 4,018	¥ 83	¥ 11,242	¥ 15,344	¥ 95,343	¥ 1,116,304

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	\$ 943	\$ 519	\$ 7,248	\$ (4)	\$ 8,707	\$ 35	\$ 1	\$ 127	\$ 165	\$ 869	\$ 9,741
Profit attributable to owners of parent	—	—	1,042	—	1,042	—	—	—	—	—	1,042
Cash dividends	—	—	(274)	—	(274)	—	—	—	—	—	(274)
Decrease in retained earnings resulting from change in number of consolidated subsidiaries	—	—	(0)	—	(0)	—	—	—	—	—	(0)
Increase due to merger	—	—	1	—	1	—	—	—	—	—	1
Cancellation of treasury stock	—	0	—	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	—	10	—	—	10	—	—	—	—	—	10
Net changes in items other than shareholders' equity	—	—	—	—	—	2	0	(21)	(20)	29	9
Balance at March 31, 2018	\$ 943	\$ 529	\$ 8,018	\$ (4)	\$ 9,486	\$ 37	\$ 0	\$ 106	\$ 144	\$ 899	\$ 10,531

See accompanying notes to consolidated financial statements.



West Japan Railway Company

Consolidated Statement of Cash Flows

Year ended March 31, 2018

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2018	2017	2018
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 170,679	¥ 137,754	\$ 1,610
Adjustments for:			
Depreciation and amortization	163,562	162,729	1,543
Loss on impairment of property, plant and equipment	2,391	5,114	22
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	24,208	13,858	228
Loss on disposal of property, plant and equipment	5,506	7,335	51
Decrease in liability for retirement benefits	(26,528)	(20,123)	(250)
Increase in allowance for doubtful accounts	1,705	167	16
Increase (decrease) in provision for employees' bonuses	1,755	(351)	16
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	39
(Decrease) increase in other accruals	(4,366)	9,305	(41)
Interest and dividend income	(703)	(650)	(6)
Interest expense	20,906	22,350	197
Equity in earnings of affiliates	(2,480)	(1,574)	(23)
Gain on contributions received for construction	(25,533)	(14,649)	(240)
(Increase) decrease in notes and accounts receivable	(12,282)	2,155	(115)
Increase in inventories	(15,736)	(1,131)	(148)
Increase (decrease) in notes and accounts payable	23,440	(23,044)	221
(Decrease) increase in accrued consumption taxes	(366)	653	(3)
Other	7,213	8,935	68
Subtotal	337,540	313,002	3,184
Interest and dividend received	700	625	6
Interest paid	(20,663)	(22,573)	(194)
Income taxes paid	(42,475)	(56,908)	(400)
Net cash provided by operating activities	¥ 275,101	¥ 234,144	\$ 2,595

# West Japan Railway Company

## Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2018

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2018	2017	2018
<b>Cash flows from investing activities</b>			
Payments for time deposits with a maturity in excess of three months	¥ (231)	¥ (231)	\$ (2)
Proceeds from time deposits with a maturity in excess of three months	231	266	2
Purchases of property, plant and equipment	(201,705)	(208,832)	(1,902)
Proceeds from sales of property, plant and equipment	2,239	1,044	21
Contributions received for construction	36,391	22,728	343
Purchases of investments in securities	(4,604)	(9,985)	(43)
Proceeds from sales of investments in securities	631	930	5
Purchase of shares of subsidiary resulting in change in scope of consolidation	—	(93,714)	—
Net decrease (increase) in loans receivable	3,083	(5,766)	29
Other	(2,388)	(2,248)	(22)
Net cash used in investing activities	(166,352)	(295,808)	(1,569)
<b>Cash flows from financing activities</b>			
Net increase in short-term loans	857	433	8
Proceeds from long-term loans	37,600	60,800	354
Repayments of long-term loans	(31,780)	(34,088)	(299)
Proceeds from issuance of bonds	40,000	70,000	377
Redemption of bonds	(50,000)	(30,000)	(471)
Payment of long-term payables	(1,515)	(30,650)	(14)
Purchases of treasury stock	—	(0)	—
Proceeds from sales of treasury stock	0	—	0
Cash dividends paid to owners of parent	(29,049)	(27,118)	(274)
Cash dividends paid to non-controlling interests	(122)	(122)	(1)
Other	(37,413)	35,052	(352)
Net cash (used in) provided by financing activities	(71,422)	44,304	(673)
Net increase (decrease) in cash and cash equivalents	37,326	(17,359)	352
Cash and cash equivalents at beginning of year	63,332	80,691	597
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	789	—	7
Cash and cash equivalents at end of year (Note 2)	¥ 101,448	¥ 63,332	\$ 957

*See accompanying notes to consolidated financial statements.*

# West Japan Railway Company

## Notes to Consolidated Financial Statements

March 31, 2018

### **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.

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 ¥106 = U.S.\$1.00, the exchange rate prevailing on March 31, 2018. 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)

#### 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:	Principally the moving average method

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

Property, plant and equipment are stated at cost (Refer to Note 6). 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.

##### (9) *Goodwill*

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

# 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 (continued)

##### *(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.

##### *(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)

#### 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.

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 large-scale renovation of Shinkansen infrastructure*

Provision for large-scale renovation of Shinkansen infrastructure is provided based on the Article 17, Paragraph 1, of the Nationwide Shinkansen Railway Development Act.

##### *(17) 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.

##### *(18) Provision for loss on railway line liquidation*

Provision for loss on railway line liquidation is provided, at a reasonably estimated amount, for expected expenditures corresponding to the dismantlement of the bridges, electrical facilities and other items along the closed Sanko Line (running from Gotsu station to Miyoshi station).

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)



# 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 (continued)

##### *(19) 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 a provision for unutilized gift tickets at a reasonably estimated amount of future utilization based on the historical utilization ratio.

##### *(20) 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.

##### *(21) 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.

##### *(22) 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.

# 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 (continued)

##### *(22) Hedge accounting (continued)*

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.

##### *(23) Accounting standards issued but not yet effective*

#### Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the Accounting Standards Board of Japan (“ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

##### (1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue recognition:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the entity satisfies a performance obligation

##### (2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

##### (3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

# 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 (continued)

##### (24) Change in accounting estimates

Due to a decrease in the expected future disposal costs related to low-concentration polychlorinated biphenyl waste, the difference between the former estimation and current estimation was recorded as “Other, net” in the accompanying consolidated statement of profit or loss. As a result, profit before income taxes for the year ended March 31, 2018 increased by ¥2,653 million (\$25 million).

### 2. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2018 and 2017 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>
	2018	2017	2018
Cash and deposits	¥ 82,995	¥ 63,578	\$ 782
Time deposits with original maturities in excess of three months included in cash and deposits	(246)	(245)	(2)
Certificate of deposits with the original maturity within three months included in short-term investments	18,700	—	176
Cash and cash equivalents	<u>¥ 101,448</u>	<u>¥ 63,332</u>	<u>\$ 957</u>

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 3. Short-Term Investments and Investments in Securities

The accounting standard for financial instruments requires that, except for investments in unconsolidated subsidiaries and affiliates, 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, 2018 and 2017. The standard further requires that marketable 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, 2018 and 2017 are summarized as follows:

	<i>Millions of yen</i>					
	2018			2017		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 16,600	¥ 10,233	¥ 6,367	¥ 13,994	¥ 8,134	¥ 5,859
Debt securities:						
Government bonds	274	266	7	275	264	10
Corporate bonds	—	—	—	6	6	0
Subtotal	16,875	10,500	6,374	14,275	8,405	5,870
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	5,604	6,162	(558)	7,776	8,274	(498)
Other	18,700	18,700	—	—	—	—
Subtotal	24,304	24,862	(558)	7,776	8,274	(498)
Total	¥ 41,179	¥ 35,362	¥ 5,816	¥ 22,051	¥ 16,680	¥ 5,371

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 3. Short-Term Investments and Investments in Securities (continued)

	<i>Millions of U.S. dollars</i>		
	2018		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 156	\$ 96	\$ 60
Debt securities:			
Government bonds	2	2	0
Subtotal	159	99	60
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	52	58	(5)
Other	176	176	–
Subtotal	229	234	(5)
Total	\$ 388	\$ 333	\$ 54

### 4. Inventories

Inventories at March 31, 2018 and 2017 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Merchandise and real estate for sale	¥ 15,327	¥ 15,798	\$ 144
Work in progress	64,348	47,285	607
Rails, materials and supplies	21,582	19,718	203
	¥ 101,258	¥ 82,802	\$ 955

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 5. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2018 and 2017 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Investments in:			
Unconsolidated subsidiaries	¥ 11,964	¥ 11,001	\$ 112
Affiliates	47,979	44,906	452
	<u>¥ 59,943</u>	<u>¥ 55,907</u>	<u>\$ 565</u>

### 6. 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 property, plant and equipment 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, 2018 and 2017 amounted to ¥717,998 million (\$6,773 million) and ¥695,970 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, 2018 and 2017 totaled ¥862 million (\$8 million) and ¥1,445 million, respectively.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 7. Loss on Impairment of Property, Plant and Equipment

The Company and its consolidated subsidiaries group their property, plant and equipment relating to transportation, sales of goods and food services and other businesses primarily in accordance with each business, which manages its revenues and expenses separately. They also group their property, plant and equipment in the real estate business, property, plant and equipment to be disposed of and idle assets primarily on an individual asset basis.

For the years ended March 31, 2018 and 2017, the Company wrote down the following property, plant and equipment to the respective recoverable value and recorded a related loss on impairment of totaling ¥2,391 million (\$22 million) and ¥5,114 million, respectively, in the accompanying consolidated statement of profit or loss.

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	<u>2018</u>	<u>2018</u>
Assets to be disposed of:		
Buildings, structures, land and other, held in Chiba City, Chiba Prefecture	¥ 2,162	\$ 20
Other assets:		
Building, structures, land and other, held in Shimonoseki City, Yamaguchi Prefecture	229	2
Total	<u>¥ 2,391</u>	<u>\$ 22</u>
	<i>Millions of yen</i>	
	<u>2017</u>	
Assets to be disposed of:		
Buildings, structures, land and other, held in Gotsu City, Shimane Prefecture	¥ 5,068	
Other assets:		
Building, structures, land and other, held in Daito City, Osaka Prefecture	46	
Total	<u>¥ 5,114</u>	

The recoverable value of the assets in the above table was measured primarily at net realizable value.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 8. Investment and Rental Properties

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

Rental income, net of related expenses relevant to these real estate properties amounted to ¥43,754 million (\$412 million) and ¥44,177 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 are as follows:

<i>Millions of yen</i>			
2018			
Carrying value			Fair value
As of April 1, 2017	Net change	As of March 31, 2018	As of March 31, 2018
¥ 303,470	¥ 6,330	¥ 309,800	¥ 640,800
<i>Millions of yen</i>			
2017			
Carrying value			Fair value
As of April 1, 2016	Net change	As of March 31, 2017	As of March 31, 2017
¥ 192,547	¥ 110,923	¥ 303,470	¥ 613,949
<i>Millions of U.S. dollars</i>			
2018			
Carrying value			Fair value
As of April 1, 2017	Net change	As of March 31, 2018	As of March 31, 2018
\$2,862	\$ 59	\$2,922	\$6,045



## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### **8. Investment and Rental Properties (continued)**

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, 2018 and 2017 included increase mainly due to acquisitions of real estate properties in the amount of ¥18,416 million (\$173 million) and consolidation of a new subsidiary in the amount of ¥102,017 million and decrease mainly due to depreciation in the amount of ¥11,409 million (\$107 million) and ¥9,370 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)

### 9. Short-Term Loans and Long-Term Debt

Short-term loans represent loans on deeds due within one year. The annual interest rates applicable to such loans outstanding at March 31, 2018 and 2017 ranged from 0.15% to 0.33% and from 0.16% to 0.43%, respectively.

Long-term debt at March 31, 2018 and 2017 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Secured West Japan Railway bonds, payable in yen, at rate of 2.41%, due through 2018	¥ 10,000	¥ 60,000	\$ 94
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.175% to 2.49%, due from 2018 through 2057	514,983	474,981	4,858
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 1.66% to 3.15%, due in installments from 2019 through 2021	16,405	17,375	154
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.00% to 2.15%, due in installments from 2019 through 2057	371,300	363,900	3,502
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due through 2018	300	910	2
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2019 through 2047	9,494	7,286	89
Other	13,282	13,282	125
	935,765	937,734	8,827
Less current portion	(59,830)	(82,354)	(564)
	<u>¥ 875,934</u>	<u>¥ 855,380</u>	<u>\$ 8,263</u>

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2018 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2019	¥ 59,830	\$ 564
2020	78,082	736
2021	75,584	713
2022	59,419	560
2023	58,220	549
2024 and thereafter	604,645	5,704
	¥ 935,781	\$ 8,828

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, 2018 and 2017 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,226
Credit utilized	—	—	—
Available credit	¥ 130,000	¥ 130,000	\$ 1,226

### 10. Pledged Assets

Assets pledged at March 31, 2018 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2018	
Bank deposits included in cash and deposits	¥ 246	\$ 2
Investments in other securities	686	6
Land	128	1
Buildings and structures, net	14,783	139
Other assets	374	3
	¥ 16,219	\$ 153

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 10. Pledged Assets (continued)

The indebtedness secured by such collateral at March 31, 2018 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2018	
Notes and accounts payable	¥ 19	\$ 0
Current portion of long-term loans included in current portion of long-term debt	300	2
	¥ 319	\$ 3

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 ¥30,000 million (\$283 million).

### 11. Long-Term Payables

Long-term payables at March 31, 2018 and 2017 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2019 through 2051	¥ 103,833	¥ 104,679	\$ 979
Other	2,121	2,790	20
	105,955	107,470	999
Less current portion	(1,580)	(1,512)	(14)
	¥ 104,375	¥ 105,957	\$ 984

The aggregate annual maturities of long-term payables subsequent to March 31, 2018 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2019	¥ 1,580	\$ 14
2020	1,642	15
2021	1,570	14
2022	1,312	12
2023	1,167	11
2024 and thereafter	98,681	930
	¥ 105,955	\$ 999

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 12. Income Taxes

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2018 and 2017 has been omitted because such differences were less than 5% of the statutory tax rates.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2018 and 2017 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Deferred tax assets:			
Provision for employees' bonuses	¥ 12,340	¥ 11,830	\$ 116
Accrued enterprise taxes included in accrued expenses	2,227	1,838	21
Liability for retirement benefits	92,701	99,910	874
Unrealized gain on property, plant and equipment	14,301	13,769	134
Tax loss carryforwards	10,727	9,277	101
Other	44,302	42,675	417
Gross deferred tax assets	176,600	179,302	1,666
Valuation allowance	(17,533)	(15,128)	(165)
Total deferred tax assets	159,067	164,173	1,500
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,131)	(1,992)	(20)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,364)	(11,739)	(107)
Gain on valuation of assets of consolidated subsidiaries	(1,158)	(1,196)	(10)
Other	(4,799)	(4,080)	(45)
Total deferred tax liabilities	(19,454)	(19,008)	(183)
Deferred tax assets, net	¥ 139,612	¥ 145,165	\$ 1,317

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 13. Leases

Future minimum lease payments subsequent to March 31, 2018 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2019	¥ 1,452	\$ 13
2020 and thereafter	14,741	139
	¥ 16,194	\$ 152

Future minimum lease receipts subsequent to March 31, 2018 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2019	¥ 262	\$ 2
2020 and thereafter	1,889	17
	¥ 2,151	\$ 20

### 14. 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, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥ 332,995	¥ 348,422	\$ 3,141
Service cost	11,898	12,198	112
Interest cost	2,530	2,659	23
Actuarial loss	1,754	1,249	16
Retirement benefits paid	(39,044)	(34,402)	(368)
Prior service cost	—	2,261	—
Reclassification of retirement benefit obligation resulting from change from Simplified Method	282	—	2
Other	74	606	0
Retirement benefit obligations at end of year	¥ 310,492	¥ 332,995	\$ 2,929

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 14. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied during the years ended March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Plan assets at beginning of year	¥ 15,773	¥ 13,990	\$ 148
Expected return on plan assets	293	240	2
Actuarial gain	198	51	1
Contributions paid	1,478	1,387	13
Retirement benefits paid	(641)	(564)	(6)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	231	—	2
Other	—	666	—
Plan assets at end of year	¥ 17,334	¥ 15,773	\$ 163

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Liability for retirement benefits at beginning of year	¥ 6,358	¥ 5,543	\$ 59
Retirement benefit expenses	1,045	913	9
Retirement benefits paid	(477)	(543)	(4)
Contributions paid	(118)	(163)	(1)
Reclassification of liability for retirement benefits resulting from change from Simplified Method	(51)	—	0
Increase resulting from newly consolidated subsidiary	—	607	—
Liability for retirement benefits at end of year	¥ 6,757	¥ 6,358	\$ 63

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2017 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>
	2018	2017	2018
Funded retirement benefit obligations	¥ 20,374	¥ 19,203	\$ 192
Plan assets at fair value	(18,365)	(16,945)	(173)
	2,009	2,258	18
Unfunded retirement benefit obligations	297,906	321,321	2,810
Net liability for retirement benefits in the consolidated balance sheet	¥ 299,915	¥ 323,580	\$ 2,829
Liability for retirement benefits	301,783	325,085	2,847
Asset for retirement benefits	(1,868)	(1,505)	(17)
Net liability for retirement benefits in the consolidated balance sheet	¥ 299,915	¥ 323,580	\$ 2,829

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 14. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Service cost	¥ 11,898	¥ 12,198	\$ 112
Interest cost	2,530	2,659	23
Expected return on plan assets	(293)	(240)	(2)
Amortization of unrecognized actuarial gain	(1,461)	(1,803)	(13)
Amortization of prior service cost	(0)	2,261	(0)
Retirement benefit expenses calculated by the Simplified Method	1,045	913	9
Other	62	(9)	0
Retirement benefit expenses under defined benefit pension plans	<u>¥ 13,782</u>	<u>¥ 15,979</u>	<u>\$ 130</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the years ended March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Prior service cost	¥ (0)	¥ (0)	\$ (0)
Actuarial gain	(3,017)	(3,001)	(28)
	<u>¥ (3,017)</u>	<u>¥ (3,001)</u>	<u>\$ (28)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2018 and 2017 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Unrecognized prior service cost	¥ 0	¥ 0	\$ 0
Unrecognized actuarial gain	16,216	19,233	152
	<u>¥ 16,216</u>	<u>¥ 19,234</u>	<u>\$ 152</u>



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 14. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2018 and 2017 are as follows:

	2018	2017
Debt securities	48%	50%
Equity securities	23	27
Other	29	23
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, 2018 and 2017 are principally as follows:

	2018	2017
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	3.0%	3.0%

Total contributions required to be paid by certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2018 and 2017 amounted to ¥547 million (\$5 million) and ¥469 million, respectively.

### 15. Contingent Liabilities

At March 31, 2018, 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 ¥20,856 million (\$196 million).

At March 31, 2018, 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 (\$188 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)

### 16. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheet and consolidated statement of changes in net assets. The Company's additional paid-in capital included in capital surplus amounted to ¥55,000 million (\$518 million) and legal reserve included in retained earnings amounted to ¥11,327 million (\$106 million) at March 31, 2018 and 2017, respectively.

#### *Common stock and treasury stock*

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2018 and 2017 are summarized as follows:

	Number of shares			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock	193,735,000	—	—	193,735,000
Treasury stock	129,899	—	91	129,808

  

	Number of shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	193,735,000	—	—	193,735,000
Treasury stock	129,849	50	—	129,899

The decrease in treasury stock of 91 common stock for the year ended March 31, 2018 was due to the sales of 75 shares less than one trading unit and changes in equity in affiliates accounted for by equity method of 16 shares.

The increase in treasury stock during the year ended March 31, 2017 was due to the purchases of 50 shares less than one trading unit.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 17. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥8,395 million (\$79 million) and ¥9,096 million for the years ended March 31, 2018 and 2017, respectively.

### 18. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2018 and 2017.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 515	¥ 311	\$ 4
Reclassification adjustments for gain included in consolidated statement of profit or loss	(71)	(0)	(0)
Before tax effect	444	311	4
Tax effect	(139)	(61)	(1)
Total	305	249	2
Net unrealized deferred gain (loss) on hedging instruments:			
Amount arising during the year	(191)	571	(1)
Before tax effect	(191)	571	(1)
Tax effect	59	(181)	0
Total	(132)	389	(1)
Retirement benefit liability adjustments:			
Amount arising during the year	(1,556)	(1,197)	(14)
Reclassification adjustments for gain and loss included in consolidated statement of profit or loss	(1,461)	(1,803)	(13)
Before tax effect	(3,017)	(3,001)	(28)
Tax effect	928	928	8
Total	(2,089)	(2,072)	(19)
Other comprehensive income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	56	(0)	0
Reclassification adjustments for loss included in consolidated statement of profit or loss	14	6	0
Total	70	5	0
Total other comprehensive loss	¥ (1,846)	¥ (1,427)	\$ (17)

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 19. Amounts per Share

Amounts per share at March 31, 2018 and 2017 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2018	2017	2018
Net assets	¥ 5,273.42	¥ 4,857.50	\$ 49.74
Profit attributable to owners of parent	570.72	471.52	5.38
Cash dividends	160.00	140.00	1.50

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, 2018 and 2017 since the Company had no potentially dilutive stock at March 31, 2018 and 2017.

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)

### 20. Financial Instruments

#### Overview

##### *(1) Policy for financial instruments*

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

##### *(2) Types of financial instruments and related risk*

Trade receivables – trade notes and accounts receivable – are exposed to credit risk in relation to customers. Short-term investments and investments in securities are exposed to market 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, 2018. 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 three years from March 31, 2018.

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 (22).

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. 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)

### 20. 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)

### 20. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2018 and 2017 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to 2 in Note 20).

	<i>Millions of yen</i>		
	2018		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 82,995	¥ 82,995	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	778	778	–
Trade	140,301	140,301	–
Short-term investments and investments in securities:			
Investments in affiliates	2,770	4,069	1,299
Other securities	41,179	41,179	–
Liabilities:			
Short-term loans	(17,252)	(17,252)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,433)	(2,433)	–
Trade	(157,381)	(157,381)	–
Income taxes payable	(25,295)	(25,295)	–
Accrued expenses	(6,266)	(6,266)	–
Deposits (component of deposits and advances received)	(95,661)	(95,661)	–
Long-term debt (including current portion)	(926,270)	(994,373)	(68,103)
Long-term payables (including current portion)	(105,955)	(227,178)	(121,223)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	151	151	–



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of yen</i>		
	2017		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 63,578	¥ 63,578	¥ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	731	731	—
Trade	127,822	127,822	—
Short-term investments and investments in securities:			
Investments in affiliates	2,525	2,678	153
Other securities	22,051	22,051	—
Liabilities:			
Short-term loans	(15,908)	(15,908)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,556)	(2,556)	—
Trade	(149,271)	(149,271)	—
Income taxes payable	(19,194)	(19,194)	—
Accrued expenses	(5,010)	(5,010)	—
Deposits (component of deposits)	(82,206)	(82,206)	—
Long-term debt (including current portion)	(930,448)	(1,001,325)	(70,877)
Long-term payables (including current portion)	(107,470)	(229,080)	(121,610)
Derivative transactions qualifying for hedge accounting (component of deposits)	343	343	—

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2018		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	\$ 782	\$ 782	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	7	7	–
Trade	1,323	1,323	–
Short-term investments and investments in securities:			
Investments in affiliates	26	38	12
Other securities	388	388	–
Liabilities:			
Short-term loans	(162)	(162)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(22)	(22)	–
Trade	(1,484)	(1,484)	–
Income taxes payable	(238)	(238)	–
Accrued expenses	(59)	(59)	–
Deposits (component of deposits)	(902)	(902)	–
Long-term debt (including current portion)	(8,738)	(9,380)	(642)
Long-term payables (including current portion)	(999)	(2,143)	(1,144)
Derivative transactions qualifying for hedge accounting (component of deposits)	1	1	–

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. 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 expenses*

Since these items are settled in a short period of time, their carrying value approximates fair value.

*Bonds (component of long-term debt, including current portion)*

The fair value of bonds is determined based on the quoted market price.

*Long-term loan (component of long-term debt, including current portion) and long-term payables (including current portion)*

The fair value of long-term loans 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.

Further, the fair value of certain long-term loans, which are subject to treatment using foreign currency swap or interest-rate swap, is estimated by discounting the foreign currency swap or interest-rate swap and the total amounts of principal and interest treated in combination with them based on an interest rate to be applied if similar new loans were entered into.

Long-term payables are monetary liability for purchase of railway facilities 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 is 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*

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

Refer to Note 21.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. 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, 2018 and 2017 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2018	2017	2018
Investments in securities			
Unlisted stocks	¥ 60,463	¥ 55,889	\$ 570
Other	1,104	0	10

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, 2018 is as follows:

	<i>Millions of yen</i>		
	2018		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 69,504	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	778	0	–
Trade	140,298	2	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposits)	18,700	–	–
Other securities with maturities (national government bonds)	–	231	41
Other securities with maturities (corporate bonds)	–	–	–
Total	¥ 229,281	¥ 234	¥ 41

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2018		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 655	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	7	0	–
Trade	1,323	0	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposit)	176	–	–
Other securities with maturities (national government bonds)	–	2	0
Other securities with maturities (corporate bonds)	–	–	–
Total	<u>\$ 2,163</u>	<u>\$ 2</u>	<u>\$ 0</u>

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

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2018 and 2017.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2018 and 2017 were as follows:

#### Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	2018		
			<i>Millions of yen</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	¥ 3,526	¥ –	¥ 68 (*1)
	U.S. dollars	(Forecasted transaction)	3,392	–	29 (*1)
	Other		1,912	40	56 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Sell	Accounts receivable			
	Euro	(Forecasted transaction)	23	–	( 2 ) (*1)
	Buy	Accounts payable			
	Australian dollars and others	(Forecasted transaction)	49	–	( 0 ) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	264	–	(*2)
	U.S. dollars		382	–	(*2)
	Other		177	–	(*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	5,000	5,000	(*2)
			¥ 14,728	¥ 5,040	¥ 151

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Derivative Transactions (continued)

#### Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2017		
			<i>Millions of yen</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	¥ 2,563	¥ 17	¥ 78 (*1)
	U.S. dollars	(Forecasted transaction)	2,968	44	205 (*1)
	Other		1,858	188	65 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Sell	Accounts receivable			
	Euro	(Forecasted transaction)	145	–	(6)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	339	–	(*2)
	U.S. dollars		338	–	(*2)
	Other		143	–	(*2)
Allocation method of forward foreign exchange contracts	Currency swap contracts including interest-rate conversion				
	Pay Yen / Receive				
	U.S. dollars	Long-term loans			
	(Interest-rate conversion: Pay fixed / Receive floating)	included in long-term debt	5,000	5,000	(*2)
			¥ 13,356	¥ 5,249	¥ 343



# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Derivative Transactions (continued)

#### Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	2018		
			<i>Millions of U.S. dollars</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	\$ 33	\$ –	\$ 0 (*1)
	U.S. dollars	(Forecasted transaction)	32	–	0 (*1)
	Other		18	0	0 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Sell	Accounts receivable			
	Euro	(Forecasted transaction)	0	–	0 (*1)
	Buy	Accounts payable			
	Australian dollars and others	(Forecasted transaction)	0	–	(0) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	2	–	(*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	47	47	(*2)
			<u>\$ 138</u>	<u>\$ 47</u>	<u>\$ 1</u>

(\*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 hedged items, their fair values were included in hedged items.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Derivative Transactions (continued)

#### Interest-rate related transactions

			2018		
			<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	¥ 40,100	¥ 40,100	(*)
			2017		
			<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	¥ 40,100	¥ 40,100	(*)
			2018		
			<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	\$ 378	\$ 378	(*)

(\*) 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)

#### **22. Segment Information**

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

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

The Company and its consolidated subsidiaries are composed of three main business segments and those reportable segments are "Transportation," "Sales of goods and food services" and "Real estate." "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)

### 22. Segment Information (continued)

Reportable segment information for the years ended March 31, 2018 and 2017 is outlined as follows:

<i>Millions of yen</i>							
2018							
	Reportable segments					Elimination and adjustments	Consolidated
	Transportation	Sales of goods and food services	Real estate	Other	Subtotal		
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 950,887	¥ 239,822	¥ 139,680	¥ 170,055	¥ 1,500,445	¥ –	¥ 1,500,445
Intersegment operating revenues or transfers	15,905	9,261	18,141	267,081	310,390	(310,390)	–
Total	¥ 966,792	¥ 249,084	¥ 157,822	¥ 437,136	¥ 1,810,835	¥ (310,390)	¥ 1,500,445
Segment income	¥ 130,319	¥ 7,294	¥ 35,792	¥ 19,962	¥ 193,368	¥ (2,002)	¥ 191,365
Segment assets	¥ 2,031,642	¥ 105,040	¥ 631,186	¥ 420,856	¥ 3,188,725	¥ (115,759)	¥ 3,072,965
Other items:							
Depreciation and amortization	¥ 136,561	¥ 5,157	¥ 19,505	¥ 2,337	¥ 163,562	¥ –	¥ 163,562
Loss on impairment of property, plant and equipment	1,102	275	937	76	2,391	–	2,391
Investment in affiliates accounted for by the equity method	25,988	–	–	12,232	38,221	–	38,221
Increase in property, plant and equipment and intangible assets	157,367	6,633	33,870	6,809	204,681	–	204,681

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information (continued)

<i>Millions of yen</i>							
2017							
	Reportable segments				Subtotal	Elimination and adjustments	Consolidated
	Transportation	Sales of goods and food services	Real estate	Other			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 929,104	¥ 233,908	¥ 109,590	¥ 168,808	¥ 1,441,411	¥ –	¥ 1,441,411
Intersegment operating revenues or transfers	18,449	9,164	18,869	264,949	311,433	(311,433)	–
Total	¥ 947,554	¥ 243,073	¥ 128,460	¥ 433,758	¥ 1,752,845	¥ (311,433)	¥ 1,441,411
Segment income	¥ 121,792	¥ 5,249	¥ 32,222	¥ 20,468	¥ 179,733	¥ (3,341)	¥ 176,392
Segment assets	¥ 2,038,979	¥ 95,229	¥ 593,346	¥ 406,179	¥ 3,133,735	¥ (125,883)	¥ 3,007,852
Other items:							
Depreciation and amortization	¥ 137,189	¥ 5,524	¥ 17,507	¥ 2,507	¥ 162,729	¥ –	¥ 162,729
Loss on impairment of property, plant and equipment	2,594	712	–	1,807	5,114	–	5,114
Investment in affiliates accounted for by the equity method	24,240	–	–	11,258	35,498	–	35,498
Increase in property, plant and equipment and intangible assets	172,260	6,172	142,010	13,025	333,469	–	333,469

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 22. Segment Information (continued)

<i>Millions of U.S. dollars</i>							
2018							
	Reportable segments				Subtotal	Elimination and adjustments	Consolidated
	Transportation	Sales of goods and food services	Real estate	Other			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	\$ 8,970	\$ 2,262	\$ 1,317	\$ 1,604	\$ 14,155	\$ –	\$ 14,155
Intersegment operating revenues or transfers	150	87	171	2,519	2,928	(2,928)	–
Total	\$ 9,120	\$ 2,349	\$ 1,488	\$ 4,123	\$ 17,083	\$ (2,928)	\$ 14,155
Segment income	\$ 1,229	\$ 68	\$ 337	\$ 188	\$ 1,824	\$ (18)	\$ 1,805
Segment assets	\$ 19,166	\$ 990	\$ 5,954	\$ 3,970	\$ 30,082	\$ (1,092)	\$ 28,990
Other items:							
Depreciation and amortization	\$ 1,288	\$ 48	\$ 184	\$ 22	\$ 1,543	\$ –	\$ 1,543
Loss on impairment of property, plant and equipment	10	2	8	0	22	–	22
Investment in affiliates accounted for by the equity method	245	–	–	115	360	–	360
Increase in property, plant and equipment and intangible assets	1,484	62	319	64	1,930	–	1,930

“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 ¥2,002 million (\$18 million) and ¥3,341 million for the years ended March 31, 2018 and 2017, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥115,759 million (\$1,092 million) and ¥125,883 million, include corporate assets not allocated to reportable segments of ¥222,331 million (\$2,097 million) and ¥181,951 million, and eliminations of intersegment transactions of ¥338,091 million (\$3,189 million) and ¥307,834 million at March 31, 2018 and 2017, 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)

### 22. Segment Information (continued)

Information on each product and service was omitted for the years ended March 31, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 because it is disclosed in Segment information.

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended March 31, 2018 and 2017 was omitted because the amounts were immaterial.

### 23. Subsequent Events

#### *(1) Issuance of bonds*

On April 18, 2018, the Company decided to issue corporate bonds, based on a resolution approved at a meeting of the Board of Directors held on March 16, 2018. Details of the bond issuance are as follows:

Description	The 52nd Series of West Japan Railway Bonds
Issuance date	April 25, 2018
Maturity date	April 25, 2058
Total issuance amount	¥15,000 million (\$141 million)
Issue price	¥100 (\$0.94) with a face value of ¥100 (\$0.94)
Annual interest rate	1.157%
Type	Unsecured
Usage of funds	Redemption of bonds

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 23. Subsequent Events (continued)

##### (2) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was to be approved at a meeting of the shareholders of the Company to be held on June 21, 2018:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥80 = U.S.\$0.75 per share)	¥ 15,498	\$ 146

##### (3) Acquisition of treasury stock

At a meeting of the Board of Directors of the Company held on April 27, 2018, pursuant to the provision of Article 156 of the Corporation Law of Japan, the Company approved a purchase of up to 1,600,000 of its own shares of common stock with an aggregate acquisition cost not exceeding ¥10,000 million (\$94 million) during the period from June 1, 2018 through March 29, 2019 in order to improve capital efficiency and to enhance the return to shareholders.