

**Consolidated Financial Statements**

**West Japan Railway Company**

*Year ended March 31, 2019  
with Independent Auditor's Report*

West Japan Railway Company  
Consolidated Financial Statements

Year ended March 31, 2019

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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, 2019, 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, 2019, 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 19, 2019  
Osaka, Japan

# West Japan Railway Company

## Consolidated Balance Sheet

As of March 31, 2019

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
<b>Assets</b>			
Current assets:			
Cash and deposits ( <i>Notes 2, 9 and 19</i> )	¥ 109,327	¥ 82,995	\$ 993
Short-term investments ( <i>Notes 2, 3 and 19</i> )	27,500	18,700	250
Notes and accounts receivable ( <i>Notes 19 and 20</i> ):			
Unconsolidated subsidiaries and affiliates	1,146	820	10
Trade	151,134	144,291	1,373
Less allowance for doubtful accounts	(705)	(815)	(6)
Inventories ( <i>Note 4</i> )	104,827	101,258	952
Prepaid expenses and other current assets	61,703	52,291	560
Total current assets	454,934	399,542	4,135
Investments:			
Unconsolidated subsidiaries and affiliates ( <i>Notes 5 and 19</i> )	73,438	59,943	667
Other securities ( <i>Notes 3, 9 and 19</i> )	27,572	26,873	250
Total investments	101,010	86,817	918
Property, plant and equipment, at cost ( <i>Notes 6, 7 and 9</i> ):			
Land	767,908	758,987	6,980
Buildings and structures	3,384,853	3,313,924	30,771
Machinery, equipment and vehicles	1,556,753	1,503,517	14,152
Tools, furniture and fixtures	172,026	146,311	1,563
Construction in progress	73,496	73,063	668
	5,955,038	5,795,803	54,136
Less accumulated depreciation	(3,501,151)	(3,431,266)	(31,828)
Property, plant and equipment, net	2,453,887	2,364,537	22,308
Deferred income taxes ( <i>Note 11</i> )	140,749	142,059	1,279
Asset for retirement benefits ( <i>Note 13</i> )	2,170	1,868	19
Other assets ( <i>Note 9</i> )	84,844	77,004	771
Total assets ( <i>Note 21</i> )	¥ 3,237,596	¥ 3,071,829	\$ 29,432

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term loans ( <i>Notes 8 and 19</i> )	¥ 20,713	¥ 17,252	\$ 188
Current portion of long-term debt ( <i>Notes 8, 19 and 20</i> )	75,379	59,830	685
Current portion of long-term payables ( <i>Notes 10 and 19</i> )	1,642	1,580	14
Notes and accounts payable ( <i>Notes 9, 19 and 20</i> ):			
Unconsolidated subsidiaries and affiliates	3,689	2,433	33
Trade	192,666	157,381	1,751
Prepaid railway fares received	41,280	38,860	375
Deposits and advances received ( <i>Note 19</i> )	142,260	125,213	1,293
Accrued expenses ( <i>Note 19</i> )	37,177	38,357	337
Income taxes payable ( <i>Notes 11 and 19</i> )	22,726	25,295	206
Provision for employees' bonuses	37,408	39,187	340
Provision for customer point programs	2,081	2,204	18
Provision for loss on disaster	11,100	–	100
Other current liabilities	20,428	22,693	185
Total current liabilities	<u>608,554</u>	<u>530,289</u>	<u>5,532</u>
Long-term liabilities:			
Long-term debt ( <i>Notes 8, 19 and 20</i> )	915,128	875,934	8,319
Long-term payables ( <i>Notes 10 and 19</i> )	102,728	104,375	933
Liability for retirement benefits ( <i>Note 13</i> )	285,843	301,783	2,598
Provision for large-scale renovation of Shinkansen infrastructure	12,500	8,333	113
Provision for environmental safety measures	11,587	15,838	105
Provision for loss on railway line liquidation	9,594	10,170	87
Provision for unutilized gift tickets	2,382	2,414	21
Deferred income taxes ( <i>Note 11</i> )	1,528	2,446	13
Other long-term liabilities	107,888	103,939	980
Total long-term liabilities	<u>1,449,180</u>	<u>1,425,236</u>	<u>13,174</u>
Contingent liabilities ( <i>Note 14</i> )			
Net assets:			
Shareholders' equity ( <i>Note 15</i> ):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2019 and 2018			
Issued and outstanding – 192,481,400 and 193,735,000 shares at March 31, 2019 and 2018	100,000	100,000	909
Capital surplus	56,171	56,171	510
Retained earnings ( <i>Note 22</i> )	911,532	849,925	8,286
Less treasury stock, at cost ( <i>Note 22</i> ) – 129,794 and 129,808 shares at March 31, 2019 and 2018	(483)	(481)	(4)
Total shareholders' equity	<u>1,067,220</u>	<u>1,005,615</u>	<u>9,702</u>
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	3,837	4,018	34
Net unrealized deferred (loss) gain on hedging instruments	(54)	83	(0)
Retirement benefits liability adjustments ( <i>Note 13</i> )	8,594	11,242	78
Total accumulated other comprehensive income	<u>12,378</u>	<u>15,344</u>	<u>112</u>
Non-controlling interests	100,262	95,343	911
Total net assets	<u>1,179,861</u>	<u>1,116,304</u>	<u>10,726</u>
Total liabilities and net assets	<u>¥ 3,237,596</u>	<u>¥ 3,071,829</u>	<u>\$ 29,432</u>

*See accompanying notes to consolidated financial statements.*

West Japan Railway Company  
Consolidated Statement of Profit or Loss

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
Operating revenues ( <i>Notes 7 and 21</i> )	¥ 1,529,308	¥ 1,500,445	\$ 13,902
Operating expenses:			
Transportation, other services and cost of sales ( <i>Note 7</i> )	1,128,016	1,113,026	10,254
Selling, general and administrative expenses ( <i>Note 16</i> )	204,345	196,052	1,857
	<u>1,332,361</u>	<u>1,309,079</u>	<u>12,112</u>
Operating income ( <i>Note 21</i> )	196,946	191,365	1,790
Other income (expenses):			
Interest and dividend income	1,161	703	10
Interest expense	(20,030)	(20,906)	(182)
Equity in earnings of affiliates	1,812	2,480	16
Gain on contributions received for construction ( <i>Note 6</i> )	23,724	25,533	215
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment ( <i>Note 6</i> )	(22,107)	(24,208)	(200)
Loss on disaster	(11,433)	(1,863)	(103)
Provision for loss on disaster	(11,100)	-	(100)
Gain on sales of property, plant and equipment	612	247	5
Loss on sales of property, plant and equipment	(139)	(664)	(1)
Other, net ( <i>Note 7</i> )	(2,272)	(2,008)	(20)
	<u>(39,772)</u>	<u>(20,686)</u>	<u>(361)</u>
Profit before income taxes	157,173	170,679	1,428
Income taxes ( <i>Note 11</i> ):			
Current	47,937	48,260	435
Deferred	1,414	6,400	12
	<u>49,352</u>	<u>54,661</u>	<u>448</u>
Profit	107,821	116,018	980
Profit attributable to non-controlling interests	5,071	5,524	46
Profit attributable to owners of parent	<u>¥ 102,750</u>	<u>¥ 110,493</u>	<u>\$ 934</u>

*See accompanying notes to consolidated financial statements.*

West Japan Railway Company  
Consolidated Statement of Comprehensive Income

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
Profit	¥ 107,821	¥ 116,018	\$ 980
Other comprehensive income (Note 17):			
Net unrealized holding (loss) gain on securities	(323)	305	(2)
Net unrealized deferred loss on hedging instruments	(172)	(132)	(1)
Retirement benefit liability adjustments (Note 13)	(2,575)	(2,089)	(23)
Other comprehensive income of affiliates accounted for by equity method attributable to owners of parent	68	70	0
Total other comprehensive loss	(3,003)	(1,846)	(27)
Total comprehensive income	¥ 104,817	¥ 114,171	\$ 952

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
Comprehensive income attributable to owners of parent	¥ 99,783	¥ 108,347	\$ 907
Comprehensive income attributable to non-controlling interests	5,034	5,824	45

**West Japan Railway Company**  
**Consolidated Statement of Changes in Net Assets**

Year ended March 31, 2019

*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, 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 April 1, 2018	¥ 100,000	¥ 56,171	¥ 849,925	¥(481)	¥1,005,615	¥ 4,018	¥ 83	¥11,242	¥15,344	¥95,343	¥1,116,304
Profit attributable to owners of parent	-	-	102,750	-	102,750	-	-	-	-	-	102,750
Cash dividends	-	-	(32,340)	-	(32,340)	-	-	-	-	-	(32,340)
Increase due to merger	-	-	845	-	845	-	-	-	-	-	845
Increase due to corporate division	-	-	348	-	348	-	-	-	-	-	348
Purchase of treasury stock	-	-	-	(9,999)	(9,999)	-	-	-	-	-	(9,999)
Cancellation of treasury stock	-	(0)	(9,997)	9,997	-	-	-	-	-	-	-
Increase due to changes in equity in affiliates accounted for by equity method	-	-	-	0	0	-	-	-	-	-	0
Net changes in items other than shareholders' equity	-	-	-	-	-	(181)	(137)	(2,648)	(2,966)	4,919	1,952
Balance at March 31, 2019	¥ 100,000	¥ 56,171	¥ 911,532	¥(483)	¥1,067,220	¥ 3,837	¥ (54)	¥ 8,594	¥ 12,378	¥100,262	¥1,179,861

*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, 2018	\$ 909	\$ 510	\$ 7,726	\$ (4)	\$ 9,141	\$ 36	\$ 0	\$ 102	\$ 139	\$ 866	\$10,148
Profit attributable to owners of parent	-	-	934	-	934	-	-	-	-	-	934
Cash dividends	-	-	(294)	-	(294)	-	-	-	-	-	(294)
Increase due to merger	-	-	7	-	7	-	-	-	-	-	7
Increase due to corporate division	-	-	3	-	3	-	-	-	-	-	3
Purchase of treasury stock	-	-	-	(90)	(90)	-	-	-	-	-	(90)
Cancellation of treasury stock	-	(0)	(90)	90	-	-	-	-	-	-	-
Increase due to changes in equity in affiliates accounted for by equity method	-	-	-	0	0	-	-	-	-	-	0
Net changes in items other than shareholders' equity	-	-	-	-	-	(1)	(1)	(24)	(26)	44	17
Balance at March 31, 2019	\$ 909	\$ 510	\$ 8,286	\$ (4)	\$ 9,702	\$ 34	\$ 0	\$ 78	\$ 112	\$ 911	\$10,726

*See accompanying notes to consolidated financial statements.*



West Japan Railway Company  
Consolidated Statement of Cash Flows

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 157,173	¥ 170,679	\$ 1,428
Adjustments for:			
Depreciation and amortization	163,188	163,562	1,483
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	22,107	24,208	200
Loss on disposal of property, plant and equipment	8,056	5,506	73
Decrease in liability for retirement benefits	(19,720)	(26,528)	(179)
Increase in allowance for doubtful accounts	940	1,705	8
(Decrease) increase in provision for employees' bonuses	(1,813)	1,755	(16)
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	37
Increase (decrease) in other accruals	6,438	(4,366)	58
Interest and dividend income	(1,161)	(703)	(10)
Interest expense	20,030	20,906	182
Equity in earnings of affiliates	(1,812)	(2,480)	(16)
Gain on contributions received for construction	(23,724)	(25,533)	(215)
Increase in notes and accounts receivable	(6,888)	(12,282)	(62)
Increase in inventories	(2,709)	(15,736)	(24)
Increase in notes and accounts payable	41,268	23,440	375
Decrease in accrued consumption taxes	(5,276)	(366)	(47)
Other	(1,585)	9,605	(14)
Subtotal	358,679	337,540	3,260
Interest and dividend received	1,159	700	10
Interest paid	(19,753)	(20,663)	(179)
Income taxes paid	(50,357)	(42,475)	(457)
Net cash provided by operating activities	¥ 289,728	¥ 275,101	\$ 2,633

# West Japan Railway Company

## Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2019	2018	2019
<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	231	2
Purchases of property, plant and equipment	(257,264)	(201,705)	(2,338)
Proceeds from sales of property, plant and equipment	453	2,239	4
Contributions received for construction	29,932	36,391	272
Purchases of investments in securities	(15,289)	(4,604)	(138)
Proceeds from sales of investments in securities	55	631	0
Net decrease in loans receivable	501	3,083	4
Other	(5,808)	(2,388)	(52)
Net cash used in investing activities	(247,420)	(166,352)	(2,249)
<b>Cash flows from financing activities</b>			
Net increase in short-term loans	4,248	857	38
Proceeds from long-term loans	29,700	37,600	270
Repayments of long-term loans	(41,326)	(31,780)	(375)
Proceeds from issuance of bonds	70,000	40,000	636
Redemption of bonds	(25,000)	(50,000)	(227)
Payment of long-term payables	(1,583)	(1,515)	(14)
Purchases of treasury stock	(9,999)	–	(90)
Proceeds from sales of treasury stock	–	0	–
Cash dividends paid to owners of parent	(32,329)	(29,049)	(293)
Cash dividends paid to non-controlling interests	(114)	(122)	(1)
Other	(770)	(37,413)	(7)
Net cash used in financing activities	(7,174)	(71,422)	(65)
Net increase in cash and cash equivalents	35,132	37,326	319
Cash and cash equivalents at beginning of year	101,448	63,332	922
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	–	789	–
Cash and cash equivalents at end of year <i>(Note 2)</i>	¥ 136,581	¥ 101,448	\$ 1,241

*See accompanying notes to consolidated financial statements.*

# West Japan Railway Company

## Notes to Consolidated Financial Statements

March 31, 2019

### **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 (collectively, the “Group”) 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 amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Group is 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 ¥110 = U.S. \$1.00, the exchange rate prevailing on March 31, 2019. 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)*

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 (Refer to Note 6).

##### (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.

##### *(15) Provision for loss on disaster*

Provision for loss on disaster is provided, at an estimated amount, for expected expenditures required to complete future restoration work related to damage arising from the "Heavy Rain Event of July 2018."

# 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)

##### *(16) Retirement benefits*

The asset and liability for retirement benefits are provided principally at an expected 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”).

##### *(17) 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.

##### *(18) 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.

##### *(19) 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)

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

#### Summary of Significant Accounting Policies (continued)

##### *(20) 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.

##### *(21) 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.

##### *(22) 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.

##### *(23) 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 certain 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)

##### *(23) 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.

##### *(24) Accounting standard issued but not yet effective*

(Accounting Standard and Implementation Guidance for Revenue Recognition)

###### (1) Overview

On March 30, 2018, the Accounting Standards Board of Japan (the “ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30). The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the United States co-developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 will be applied from fiscal years starting on or after January 1, 2018 and Topic 606 will be applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

###### (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.

# 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) Accounting standard issued but not yet effective (continued)*

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

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

#### **(Change in Presentation)**

##### (Applying “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 issued on February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019. Deferred tax assets are now presented in non-current assets in the consolidated balance sheet and deferred tax liabilities are now presented in long-term liabilities in the consolidated balance sheet.

As a result, ¥19,457 million of deferred income taxes in current assets and ¥37 million of deferred income taxes in current liabilities previously presented in the consolidated balance sheet as of March 31, 2018 have been reclassified and included within deferred income taxes in non-current assets and deferred income taxes in long-term liabilities, respectively.

Along with the application, due to offsetting of deferred tax assets and deferred tax liabilities of the same taxable entity, deferred income taxes in non-current assets and long-term liabilities were offset by ¥1,136 million.

As a result, deferred income taxes in current assets decreased by ¥19,547 million, deferred income taxes in non-current assets increased by ¥18,410 million, deferred income taxes in current liabilities decreased by ¥37 million and deferred income taxes in long-term liabilities decreased by ¥1,098 million as compared with the corresponding amounts previously presented in the consolidated balance sheet as of March 31, 2018.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

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

#### (Additional Information)

(Damage from the “Heavy Rain Event of July 2018”)

Restoration expenses related to damage resulting from the “Heavy Rain Event of July 2018” were recorded as “Loss on disaster” in the other income (expense) section in the consolidated statement of profit or loss. In addition, to prepare for expenditures needed for future recovery efforts, the Company recognized the estimated amount as provision for loss on disaster in current liabilities in the consolidated balance sheet, and recorded provision for loss on disaster in the other income (expense) section in the consolidated statement of profit or loss.

### 2. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2019 and 2018 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>
	2019	2018	2019
Cash and deposits	¥ 109,327	¥ 82,995	\$ 993
Time deposits with original maturities in excess of three months included in cash and deposits	(245)	(246)	(2)
Certificate of deposits with the original maturity within three months included in short-term investments	27,500	18,700	250
Cash and cash equivalents	<u>¥ 136,581</u>	<u>¥ 101,448</u>	<u>\$ 1,241</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 Group did not have any investments classified as trading or held-to-maturity securities at March 31, 2019 and 2018. 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, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>					
	2019			2018		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 19,677	¥ 13,666	¥ 6,010	¥ 16,600	¥ 10,233	¥ 6,367
Debt securities:						
Government bonds	274	268	6	274	266	7
Subtotal	19,952	13,935	6,016	16,875	10,500	6,374
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	2,279	2,933	(653)	5,604	6,162	(558)
Other	27,500	27,500	-	18,700	18,700	-
Subtotal	29,779	30,433	(653)	24,304	24,862	(558)
Total	¥ 49,731	¥ 44,368	¥ 5,363	¥ 41,179	¥ 35,362	¥ 5,816

## 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>		
	2019		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 178	\$ 124	\$ 54
Debt securities:			
Government bonds	2	2	0
Subtotal	<u>181</u>	<u>126</u>	<u>54</u>
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	20	26	(5)
Other	250	250	-
Subtotal	<u>270</u>	<u>276</u>	<u>(5)</u>
Total	<u><u>\$ 452</u></u>	<u><u>\$ 403</u></u>	<u><u>\$ 48</u></u>

#### 4. Inventories

Inventories at March 31, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
	Merchandise and real estate for sale	¥ 15,841	¥ 15,327
Work in progress	66,687	64,348	606
Rails, materials and supplies	22,299	21,582	202
	<u><u>¥ 104,827</u></u>	<u><u>¥ 101,258</u></u>	<u><u>\$ 952</u></u>

## 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, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Investments in:			
Unconsolidated subsidiaries	¥ 23,813	¥ 11,964	\$ 216
Affiliates	49,624	47,979	451
	¥ 73,438	¥ 59,943	\$ 667

#### 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, 2019 and 2018 amounted to ¥734,980 million (\$6,681 million) and ¥717,998 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, 2019 and 2018 totaled ¥1,025 million (\$9 million) and ¥862 million, respectively.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 7. 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 ¥46,123 million (\$419 million) and ¥43,754 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

<i>Millions of yen</i>			
2019			
Carrying value			Fair value
As of April 1, 2018	Net change	As of March 31, 2019	As of March 31, 2019
¥ 309,800	¥ 18,037	¥ 327,838	¥ 701,449
<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 U.S. dollars</i>			
2019			
Carrying value			Fair value
As of April 1, 2018	Net change	As of March 31, 2019	As of March 31, 2019
\$2,816	\$ 163	\$2,980	\$6,376

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### **7. 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, 2019 and 2018 included increase mainly due to acquisitions of real estate properties in the amount of ¥31,786 million (\$288 million) and ¥18,416 million and decrease mainly due to depreciation in the amount of ¥12,040 million (\$109 million) and ¥11,409 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)

#### 8. 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, 2019 and 2018 ranged from 0.002% to 0.34% and from 0.15% to 0.33%, respectively.

Long-term debt at March 31, 2019 and 2018 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Secured West Japan Railway bonds, payable in yen, at rate of 2.41%, due through 2018	¥ —	¥ 10,000	\$ —
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.175% to 2.49%, due from 2019 through 2059	569,984	514,983	5,181
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	15,979	16,405	145
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	360,400	371,300	3,276
Secured loans from the Development Bank of Japan, payable in yen, at rates ranging from 3.25% to 4.70%, due through 2018	—	300	—
Finance lease obligations, at rates ranging from 0.00% to 4.72%, due in installments from 2019 through 2049	30,861	9,494	280
Other	13,282	13,282	120
	<u>990,507</u>	<u>935,765</u>	<u>9,004</u>
Less current portion	<u>(75,379)</u>	<u>(59,830)</u>	<u>(685)</u>
	<u>¥ 915,128</u>	<u>¥ 875,934</u>	<u>\$ 8,319</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2019 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2020	¥ 75,379	\$ 685
2021	72,945	663
2022	63,398	576
2023	59,211	538
2024	81,129	737
2025 and thereafter	638,457	5,804
	¥ 990,522	\$ 9,004

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, 2019 and 2018 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,181
Credit utilized	-	-	-
Available credit	¥ 130,000	¥ 130,000	\$ 1,181

#### 9. Pledged Assets

Assets pledged at March 31, 2019 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2019	
Bank deposits included in cash and deposits	¥ 245	\$ 2
Investments in other securities	709	6
Land	128	1
Buildings and structures, net	191	1
Other assets	395	3
	¥ 1,670	\$ 15

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 9. Pledged Assets (continued)

The indebtedness secured by such collateral at March 31, 2019 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2019	
Notes and accounts payable	¥ 16	\$ 0

#### 10. Long-Term Payables

Long-term payables at March 31, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2019 through 2052	¥ 102,931	¥ 103,833	\$ 935
Other	1,439	2,121	13
	104,371	105,955	948
Less current portion	(1,642)	(1,580)	(14)
	¥ 102,728	¥ 104,375	\$ 933

The aggregate annual maturities of long-term payables subsequent to March 31, 2019 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2020	¥ 1,642	\$ 14
2021	1,568	14
2022	1,310	11
2023	1,167	10
2024	1,245	11
2025 and thereafter	97,436	885
	¥ 104,371	\$ 948

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 11. Income Taxes

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2019 and 2018 has been omitted because the differences between the statutory tax rates and the Group's effective tax rates for financial reporting purposes were less than 5% of the statutory tax rates.

The significant components of deferred tax assets and liabilities of the Group at March 31, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Deferred tax assets:			
Provision for employees' bonuses	¥ 11,808	¥ 12,340	\$ 107
Accrued enterprise taxes included in accrued expenses	2,109	2,227	19
Liability for retirement benefits	87,841	92,701	798
Unrealized gain on property, plant and equipment	15,080	14,301	137
Tax loss carryforwards	11,002	10,727	100
Other	49,210	44,302	447
Total gross deferred tax assets	<u>177,052</u>	<u>176,600</u>	<u>1,609</u>
Valuation allowance	(18,434)	(17,533)	(167)
Total deferred tax assets	<u>158,617</u>	<u>159,067</u>	<u>1,441</u>
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,001)	(2,131)	(18)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,492)	(11,364)	(104)
Gain on valuation of assets of consolidated subsidiaries	(1,161)	(1,158)	(10)
Other	(4,741)	(4,799)	(43)
Total deferred tax liabilities	<u>(19,396)</u>	<u>(19,454)</u>	<u>(176)</u>
Deferred tax assets, net	<u>¥ 139,221</u>	<u>¥ 139,612</u>	<u>\$ 1,265</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 12. Leases

Future minimum lease payments subsequent to March 31, 2019 for noncancelable operating leases were as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
2020	¥ 2,560	\$ 23
2021 and thereafter	36,557	332
	<u>¥ 39,118</u>	<u>\$ 355</u>

Future minimum lease receipts subsequent to March 31, 2019 for noncancelable operating leases were as follows:

<u>Year ending March 31,</u>	<u>Millions of yen</u>	<u>Millions of U.S. dollars</u>
2020	¥ 249	\$ 2
2021 and thereafter	1,689	15
	<u>¥ 1,939</u>	<u>\$ 17</u>

#### 13. 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, 2019 and 2018 are as follows:

	<u>Millions of yen</u>		<u>Millions of U.S. dollars</u>
	2019	2018	2019
Retirement benefit obligations at beginning of year	¥ 310,492	¥ 332,995	\$ 2,822
Service cost	11,643	11,898	105
Interest cost	2,343	2,530	21
Actuarial loss	1,901	1,754	17
Retirement benefits paid	(31,486)	(39,044)	(286)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	-	282	-
Other	(3)	74	(0)
Retirement benefit obligations at end of year	<u>¥ 294,891</u>	<u>¥ 310,492</u>	<u>\$ 2,680</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 13. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied during the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Plan assets at beginning of year	¥ 17,334	¥ 15,773	\$ 157
Expected return on plan assets	285	293	2
Actuarial (loss) gain	(160)	198	(1)
Contributions paid	1,525	1,478	13
Retirement benefits paid	(469)	(641)	(4)
Reclassification of retirement benefit obligation resulting from change from Simplified Method	-	231	-
Plan assets at end of year	<u>¥ 18,514</u>	<u>¥ 17,334</u>	<u>\$ 168</u>

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Liability for retirement benefits at beginning of year	¥ 6,757	¥ 6,358	\$ 61
Retirement benefit expenses	1,036	1,045	9
Retirement benefits paid	(455)	(477)	(4)
Contributions paid	(122)	(118)	(1)
Reclassification of liability for retirement benefits resulting from change from Simplified Method	-	(51)	-
Other	81	-	0
Liability for retirement benefits at end of year	<u>¥ 7,297</u>	<u>¥ 6,757</u>	<u>\$ 66</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, 2019 and 2018 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>
	2019	2018	2019
Funded retirement benefit obligations	¥ 21,627	¥ 20,374	\$ 196
Plan assets at fair value	(19,641)	(18,365)	(178)
	1,986	2,009	18
Unfunded retirement benefit obligations	281,687	297,906	2,560
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 283,673</u>	<u>¥ 299,915</u>	<u>\$ 2,578</u>
Liability for retirement benefits	285,843	301,783	2,598
Asset for retirement benefits	(2,170)	(1,868)	(19)
Net liability for retirement benefits in the consolidated balance sheet	<u>¥ 283,673</u>	<u>¥ 299,915</u>	<u>\$ 2,578</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 13. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Service cost	¥ 11,643	¥ 11,898	\$ 105
Interest cost	2,343	2,530	21
Expected return on plan assets	(285)	(293)	(2)
Amortization of unrecognized actuarial gain	(1,694)	(1,461)	(15)
Amortization of prior service cost	(0)	(0)	(0)
Retirement benefit expenses calculated by the Simplified Method	1,036	1,045	9
Other	(23)	62	(0)
Retirement benefit expenses under defined benefit pension plans	<u>¥ 13,020</u>	<u>¥ 13,782</u>	<u>\$ 118</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Prior service cost	¥ (0)	¥ (0)	\$ (0)
Actuarial gain	(3,756)	(3,017)	(34)
	<u>¥ (3,756)</u>	<u>¥ (3,017)</u>	<u>\$ (34)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Unrecognized prior service cost	¥ 0	¥ 0	\$ 0
Unrecognized actuarial gain	12,459	16,216	113
	<u>¥ 12,459</u>	<u>¥ 16,216</u>	<u>\$ 113</u>

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 13. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2019 and 2018 are as follows:

	2019	2018
Debt securities	46%	48%
Equity securities	23	23
Other	31	29
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, 2019 and 2018 are principally as follows:

	2019	2018
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	2.0%	3.0%

Total contributions required to be paid by certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2019 and 2018 amounted to ¥520 million (\$4 million) and ¥547 million, respectively.

#### 14. Contingent Liabilities

At March 31, 2019, the Company and its certain consolidated subsidiaries have a commitment to provide guarantees of loans and are also 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 ¥19,755 million (\$179 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)

#### 15. 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 (\$500 million) and legal reserve included in retained earnings amounted to ¥11,327 million (\$102 million) at March 31, 2019 and 2018, respectively.

#### *Common stock and treasury stock*

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2019 and 2018 are summarized as follows:

	Number of shares			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	193,735,000	–	1,253,600	192,481,400
Treasury stock	129,808	1,253,600	1,253,614	129,794

  

	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

The decrease in common stock for the year ended March 31, 2019 was due to the cancellation of treasury stock.

The increase in treasury stock for the year ended March 31, 2019 was due to the purchase of treasury stock.

The decrease in treasury stock of 1,253,614 common stock for the year ended March 31, 2019 was due to the cancellation of 1,253,600 shares and changes in equity in affiliates accounted for by equity method of 14 shares.

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.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 16. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥8,893 million (\$80 million) and ¥8,395 million for the years ended March 31, 2019 and 2018, respectively.

#### 17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2019 and 2018.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (453)	¥ 515	\$ (4)
Reclassification adjustments for loss included in consolidated statement of profit or loss	–	(71)	–
Before tax effect	(453)	444	(4)
Tax effect	129	(139)	1
Total	(323)	305	(2)
Net unrealized deferred loss on hedging instruments:			
Amount arising during the year	(249)	(191)	(2)
Before tax effect	(249)	(191)	(2)
Tax effect	76	59	0
Total	(172)	(132)	(1)
Retirement benefit liability adjustments:			
Amount arising during the year	(2,062)	(1,556)	(18)
Reclassification adjustments for loss included in consolidated statement of profit or loss	(1,694)	(1,461)	(15)
Before tax effect	(3,756)	(3,017)	(34)
Tax effect	1,181	928	10
Total	(2,575)	(2,089)	(23)
Other comprehensive income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	79	56	0
Reclassification adjustments for (loss) gain included in consolidated statement of profit or loss	(11)	14	(0)
Total	68	70	0
Total other comprehensive loss	¥ (3,003)	¥ (1,846)	\$ (27)

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 18. Amounts per Share

Amounts per share at March 31, 2019 and 2018 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2019	2018	2019
Net assets	¥5,612.63	¥5,273.42	\$ 51.02
Profit attributable to owners of parent	533.31	570.72	4.84
Cash dividends	175.00	160.00	1.59

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, 2019 and 2018 since the Company had no potentially dilutive stock at March 31, 2019 and 2018.

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)

### 19. Financial Instruments

#### Overview

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

The Group raises 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 free 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, 2019. 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 two years from March 31, 2019.

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 (23).

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 19. 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)

#### 19. 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)

### 19. Financial Instruments (continued)

#### Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2019 and 2018 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 19).

	<i>Millions of yen</i>		
	2019		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash and deposits	¥ 109,327	¥ 109,327	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,107	1,107	–
Trade	147,253	147,253	–
Short-term investments and investments in securities:			
Investments in affiliates	2,915	4,002	1,087
Other securities	49,531	49,531	–
<b>Liabilities:</b>			
Short-term loans	(20,713)	(20,713)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(3,689)	(3,689)	–
Trade	(192,666)	(192,666)	–
Income taxes payable	(22,726)	(22,726)	–
Accrued expenses	(5,782)	(5,782)	–
Deposits (component of deposits and advances received)	(108,475)	(108,475)	–
Long-term debt (including current portion)	(959,646)	(1,041,537)	(81,891)
Long-term payables (including current portion)	(104,371)	(229,101)	(124,730)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(97)	(97)	–

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

**19. Financial Instruments (continued)**

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

	<i>Millions of yen</i>		
	2018		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
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	–
<b>Liabilities:</b>			
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)

**19. Financial Instruments (continued)**

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

	<i>Millions of U.S. dollars</i>		
	2019		
	Carrying value	Estimated fair value	Difference
<b>Assets:</b>			
Cash and deposits	\$ 993	\$ 993	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	10	10	–
Trade	1,338	1,338	–
Short-term investments and investments in securities:			
Investments in affiliates	26	36	9
Other securities	450	450	–
<b>Liabilities:</b>			
Short-term loans	(188)	(188)	–
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(33)	(33)	–
Trade	(1,751)	(1,751)	–
Income taxes payable	(206)	(206)	–
Accrued expenses	(52)	(52)	–
Deposits (component of deposits and advances received)	(986)	(986)	–
Long-term debt (including current portion)	(8,724)	(9,468)	(744)
Long-term payables (including current portion)	(948)	(2,082)	(1,133)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	(0)	(0)	–

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 19. 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*

Refer to Note 20.

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 19. 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, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2019	2018	2019
Investments in securities			
Unlisted stocks	¥ 74,927	¥ 60,463	\$ 681
Other	1,135	1,104	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, 2019 is as follows:

	<i>Millions of yen</i>		
	2019		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 92,866	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,107	0	–
Trade	147,218	34	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposits)	27,500	–	–
Other securities with maturities (national government bonds)	–	267	5
Total	¥ 268,692	¥ 302	¥ 5

## West Japan Railway Company

### Notes to Consolidated Financial Statements (continued)

#### 19. Financial Instruments (continued)

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

	<i>Millions of U.S. dollars</i>		
	2019		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 844	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	10	0	–
Trade	1,338	0	–
Short-term investments and investments in securities:			
Other securities with maturities (certificates of deposit)	250	–	–
Other securities with maturities (national government bonds)	–	2	0
Total	<u>\$ 2,442</u>	<u>\$ 2</u>	<u>\$ 0</u>

4. The redemption schedules for long-term debt and long-term payables are disclosed in Note 8 “Short-Term Loans and Long-Term Debt” and Note 10 “Long-Term Payables” in the Notes to Consolidated Financial Statements.

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2019 and 2018.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2019 and 2018 were as follows:

#### Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	<i>Millions of yen</i>		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
			2019		
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	¥ 3,499	¥ –	¥ (61) (*1)
	U.S. dollars	(Forecasted transaction)	2,375	–	2 (*1)
	Other		1,317	–	(39) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Sell	Accounts receivable			
	Euro	(Forecasted transaction)	–	–	–
	Buy	Accounts payable			
	Australian dollars and others	(Forecasted transaction)	–	–	–
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	273	–	(*2)
	U.S. dollars		240	–	(*2)
	Other		132	–	(*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)
			<u>¥ 12,837</u>	<u>¥ 5,000</u>	<u>¥ (97)</u>

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 20. Derivative Transactions (continued)

#### Currency-related transactions (continued)

Method of hedge accounting	Description of transaction	Hedged items	<i>Millions of yen</i>		
			Notional amount	2018 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				
	Euro	Accounts receivable (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)

### 20. Derivative Transactions (continued)

#### Currency-related transactions (continued)

			<i>Millions of U.S. dollars</i>		
			2019		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts Buy				
		Euro	\$ 31	\$ –	\$ (0) (*1)
		U.S. dollars	21	–	0 (*1)
		Other	11	–	(0) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Sell	Accounts receivable			
		(Forecasted transaction)	–	–	– (*1)
		Buy			
		Australian dollars and others	–	–	– (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts Buy				
		Euro	2	–	(*2)
		U.S. dollars	2	–	(*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	45	45	(*2)
			\$ 116	\$ 45	\$ (0)

(\*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)

### 20. Derivative Transactions (continued)

#### Interest-rate related transactions

			<i>Millions of yen</i>		
			2019		
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	(*)

  

			<i>Millions of yen</i>		
			2018		
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	(*)

  

			<i>Millions of U.S. dollars</i>		
			2019		
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	\$ 364	\$ 364	(*)

(\*) 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)

### **21. Segment Information**

The Group'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 Group 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)

### 21. Segment Information (continued)

Reportable segment information for the years ended March 31, 2019 and 2018 is outlined as follows:

	<i>Millions of yen</i>						
	2019						
	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	¥ 953,913	¥ 245,525	¥ 148,500	¥ 181,368	¥ 1,529,308	¥ –	¥ 1,529,308
Intersegment operating revenues or transfers	15,935	9,182	18,778	289,466	333,362	(333,362)	–
Total	¥ 969,849	¥ 254,708	¥ 167,278	¥ 470,834	¥ 1,862,670	¥ (333,362)	¥ 1,529,308
Segment income	¥ 136,287	¥ 6,142	¥ 35,694	¥ 21,275	¥ 199,399	¥ (2,453)	¥ 196,946
Segment assets	¥ 2,095,046	¥ 118,210	¥ 675,783	¥ 474,531	¥ 3,363,572	¥ (125,975)	¥ 3,237,596
Other items:							
Depreciation and amortization	¥ 134,361	¥ 5,287	¥ 20,903	¥ 2,634	¥ 163,188	¥ –	¥ 163,188
Investment in affiliates accounted for by the equity method	27,288	–	–	12,949	40,237	–	40,237
Increase in property, plant and equipment and intangible assets	212,916	16,297	45,426	23,164	297,805	–	297,805

# West Japan Railway Company

## Notes to Consolidated Financial Statements (continued)

### 21. Segment Information (continued)

	<i>Millions of yen</i>						
	2018						
	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	¥ 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	¥ 630,879	¥ 419,910	¥ 3,187,471	¥ (115,642)	¥ 3,071,829
Other items:							
Depreciation and amortization	¥ 136,561	¥ 5,157	¥ 19,505	¥ 2,337	¥ 163,562	¥ –	¥ 163,562
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)

### 21. Segment Information (continued)

		<i>Millions of U.S. dollars</i>						
		2019						
		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	\$	8,671	\$ 2,232	\$ 1,350	\$ 1,648	\$ 13,902	\$ –	\$ 13,902
Intersegment operating revenues or transfers		144	83	170	2,631	3,030	(3,030)	–
Total	\$	8,816	\$ 2,315	\$ 1,520	\$ 4,280	\$ 16,933	\$ (3,030)	\$ 13,902
Segment income	\$	1,238	\$ 55	\$ 324	\$ 193	\$ 1,812	\$ (22)	\$ 1,790
Segment assets	\$	19,045	\$ 1,074	\$ 6,143	\$ 4,313	\$ 30,577	\$ (1,145)	\$ 29,432
Other items:								
Depreciation and amortization	\$	1,221	\$ 48	\$ 190	\$ 23	\$ 1,483	\$ –	\$ 1,483
Investment in affiliates accounted for by the equity method		248	–	–	117	365	–	365
Increase in property, plant and equipment and intangible assets		1,935	148	412	210	2,707	–	2,707

“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 ¥2,453 million (\$22 million) and ¥2,002 million for the years ended March 31, 2019 and 2018, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥125,975 million (\$1,145 million) and ¥115,642 million, include corporate assets not allocated to reportable segments of ¥256,452 million (\$2,331 million) and ¥222,448 million, and eliminations of intersegment transactions of ¥382,427 million (\$3,476 million) and ¥338,091 million at March 31, 2019 and 2018, 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)

#### 21. Segment Information (continued)

Information on each product and service was omitted for the years ended March 31, 2019 and 2018 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, 2019 and 2018 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, 2019 and 2018 because the amounts were immaterial.

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended March 31, 2019 and 2018 was omitted because the amounts were immaterial.

#### 22. Subsequent Events

##### (1) 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, 2019, was to be approved at a meeting of the shareholders of the Company to be held on June 20, 2019:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥87.5 = U.S.\$0.79 per share)	¥ 16,842	\$ 153

##### (2) Acquisition of treasury stock

At a meeting of the Board of Directors of the Company held on April 26, 2019, pursuant to the provision of Article 156 of the Companies Act of Japan which is applicable in accordance with Article 165, paragraph 3 of the same law, the Company approved a purchase of up to 1,500,000 of its own shares of common stock with an aggregate acquisition cost not exceeding ¥10,000 million (\$90 million) during the period from May 7, 2019 through March 31, 2020 in order to improve capital efficiency and to enhance the return to shareholders.