

Consolidated Financial Statements

West Japan Railway Company

*Year ended March 31, 2020
with Independent Auditor's Report*

West Japan Railway Company
Consolidated Financial Statements

Year ended March 31, 2020

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Independent Auditor's Report

The Board of Directors
West Japan Railway Company

Opinion

We have audited the accompanying consolidated financial statements of West Japan Railway Company and its consolidated subsidiaries (the “Group”), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Osaka, Japan
June 22, 2020

Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

Yutaka Matsumura
Designated Engagement Partner
Certified Public Accountant

Masahiko Naka
Designated Engagement Partner
Certified Public Accountant

West Japan Railway Company

Consolidated Balance Sheet

As of March 31, 2020

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2020	2019	2020
Assets			
Current assets:			
Cash and deposits (<i>Notes 2, 9 and 19</i>)	¥ 78,530	¥ 109,327	\$ 727
Short-term investments (<i>Notes 2, 3, 9 and 19</i>)	127	27,500	1
Notes and accounts receivable (<i>Note 19</i>):			
Unconsolidated subsidiaries and affiliates	2,091	1,146	19
Trade	135,694	151,134	1,256
Less allowance for doubtful accounts	(634)	(705)	(5)
Inventories (<i>Note 4</i>)	117,088	104,827	1,084
Prepaid expenses and other current assets	74,083	61,703	685
Total current assets	406,981	454,934	3,768
Investments:			
Unconsolidated subsidiaries and affiliates (<i>Notes 5 and 19</i>)	81,364	73,438	753
Other securities (<i>Notes 3, 9 and 19</i>)	35,326	27,572	327
Total investments	116,690	101,010	1,080
Property, plant and equipment, at cost (<i>Notes 6, 7 and 9</i>):			
Land	780,886	767,908	7,230
Buildings and structures	3,476,651	3,384,853	32,191
Machinery, equipment and vehicles	1,582,125	1,556,753	14,649
Tools, furniture and fixtures	180,776	172,026	1,673
Construction in progress	86,437	73,496	800
	6,106,877	5,955,038	56,545
Less accumulated depreciation	(3,574,788)	(3,501,151)	(33,099)
Property, plant and equipment, net	2,532,088	2,453,887	23,445
Deferred income taxes (<i>Note 11</i>)	136,954	140,749	1,268
Asset for retirement benefits (<i>Note 13</i>)	1,919	2,170	17
Other assets (<i>Note 9</i>)	80,622	84,844	746
Total assets (<i>Note 21</i>)	¥ 3,275,257	¥ 3,237,596	\$ 30,326

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2020	2019	2020
Liabilities and net assets			
Current liabilities:			
Short-term loans (<i>Notes 8 and 19</i>)	¥ 24,711	¥ 20,713	\$ 228
Commercial papers (<i>Note 19</i>)	60,000	—	555
Current portion of long-term debt (<i>Notes 8, 19, 20 and 22</i>)	73,073	75,379	676
Current portion of long-term payables (<i>Notes 10 and 19</i>)	1,567	1,642	14
Notes and accounts payable (<i>Notes 9, 19 and 20</i>):			
Unconsolidated subsidiaries and affiliates	7,689	3,689	71
Trade	195,471	192,666	1,809
Prepaid railway fares received	31,999	41,280	296
Deposits and advances received (<i>Note 19</i>)	145,516	142,260	1,347
Accrued expenses (<i>Note 19</i>)	33,660	37,177	311
Income taxes payable (<i>Notes 11 and 19</i>)	16,975	22,726	157
Provision for employees' bonuses	37,410	37,408	346
Provision for customer point programs	2,431	2,081	22
Provision for loss on disaster	5,131	11,100	47
Other current liabilities	22,892	20,428	211
Total current liabilities	658,530	608,554	6,097
Long-term liabilities:			
Long-term debt (<i>Notes 8, 19, 20 and 22</i>)	874,834	915,128	8,100
Long-term payables (<i>Notes 10 and 19</i>)	101,158	102,728	936
Liability for retirement benefits (<i>Note 13</i>)	269,328	285,843	2,493
Provision for large-scale renovation of Shinkansen infrastructure	16,666	12,500	154
Provision for environmental safety measures	8,912	11,587	82
Provision for loss on railway line liquidation	8,887	9,594	82
Provision for unutilized gift tickets	2,343	2,382	21
Deferred income taxes (<i>Note 11</i>)	655	1,528	6
Other long-term liabilities	110,833	107,888	1,026
Total long-term liabilities	1,393,620	1,449,180	12,903
Contingent liabilities (<i>Note 14</i>)			
Net assets:			
Shareholders' equity (<i>Note 15</i>):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2020 and 2019			
Issued and outstanding – 191,334,500 and 192,481,400 shares at March 31, 2020 and 2019	100,000	100,000	925
Capital surplus	56,567	56,171	523
Retained earnings (<i>Note 22</i>)	956,227	911,532	8,853
Less treasury stock, at cost – 129,792 and 129,794 shares at March 31, 2020 and 2019	(483)	(483)	(4)
Total shareholders' equity	1,112,311	1,067,220	10,299
Accumulated other comprehensive income:			
Net unrealized holding (loss) gain on securities	(430)	3,837	(3)
Net unrealized deferred gain (loss) on hedging instruments	29	(54)	0
Retirement benefits liability adjustments (<i>Note 13</i>)	6,114	8,594	56
Total accumulated other comprehensive income	5,714	12,378	52
Non-controlling interests	105,080	100,262	972
Total net assets	1,223,106	1,179,861	11,325
Total liabilities and net assets	¥ 3,275,257	¥ 3,237,596	\$ 30,326

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Profit or Loss

Year ended March 31, 2020

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2020	2019	2020
Operating revenues (<i>Notes 7 and 21</i>)	¥ 1,508,201	¥ 1,529,308	\$ 13,964
Operating expenses:			
Transportation, other services and cost of sales (<i>Note 7</i>)	1,130,143	1,128,016	10,464
Selling, general and administrative expenses (<i>Note 16</i>)	217,430	204,345	2,013
	<u>1,347,573</u>	<u>1,332,361</u>	<u>12,477</u>
Operating income (<i>Note 21</i>)	160,628	196,946	1,487
Other income (expenses):			
Interest and dividend income	1,203	1,161	11
Interest expense	(19,465)	(20,030)	(180)
Equity in earnings of affiliates	1,787	1,812	16
Gain on contributions received for construction (<i>Note 6</i>)	12,191	23,724	112
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (<i>Note 6</i>)	(11,606)	(22,107)	(107)
Loss on disposal of property, plant and equipment	(5,291)	(1,875)	(48)
Provision for loss on disaster	—	(11,100)	—
Gain on sales of property, plant and equipment	961	612	8
Loss on sales of property, plant and equipment	(148)	(139)	(1)
Other, net (<i>Note 7</i>)	402	(11,829)	3
	<u>(19,965)</u>	<u>(39,772)</u>	<u>(184)</u>
Profit before income taxes	140,662	157,173	1,302
Income taxes (<i>Note 11</i>):			
Current	40,703	47,937	376
Deferred	6,130	1,414	56
	<u>46,833</u>	<u>49,352</u>	<u>433</u>
Profit	93,828	107,821	868
Profit attributable to non-controlling interests	4,447	5,071	41
Profit attributable to owners of parent	<u>¥ 89,380</u>	<u>¥ 102,750</u>	<u>\$ 827</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Comprehensive Income

Year ended March 31, 2020

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Profit	¥ 93,828	¥ 107,821	\$ 868
Other comprehensive income (Note 17):			
Net unrealized holding loss on securities	(4,572)	(323)	(42)
Net unrealized deferred gain (loss) on hedging instruments	105	(172)	0
Retirement benefit liability adjustments (Note 13)	(2,519)	(2,575)	(23)
Other comprehensive income of affiliates accounted for by equity method attributable to owners of parent	<u>208</u>	<u>68</u>	<u>1</u>
Total other comprehensive loss	<u>(6,778)</u>	<u>(3,003)</u>	<u>(62)</u>
Total comprehensive income	<u>¥ 87,050</u>	<u>¥ 104,817</u>	<u>\$ 806</u>

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Comprehensive income attributable to owners of parent	¥ 82,716	¥ 99,783	\$ 765
Comprehensive income attributable to non- controlling interests	4,333	5,034	40

West Japan Railway Company

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2020

	<i>Millions of yen</i>										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding (loss) gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehen- sive income	Non- controlling interests	Total net assets
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 April 1, 2019	¥ 100,000	¥ 56,171	¥ 911,532	¥ (483)	¥ 1,067,220	¥ 3,837	¥ (54)	¥ 8,594	¥ 12,378	¥ 100,262	¥1,179,861
Profit attributable to owners of parent	—	—	89,380	—	89,380	—	—	—	—	—	89,380
Cash dividends	—	—	(35,018)	—	(35,018)	—	—	—	—	—	(35,018)
Change in scope of consolidation	—	379	(186)	—	192	—	—	—	—	—	192
Increase due to merger	—	—	518	—	518	—	—	—	—	—	518
Increase due to corporate division	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(9,999)	(9,999)	—	—	—	—	—	(9,999)
Cancellation of treasury stock	—	—	(9,999)	9,999	—	—	—	—	—	—	—
Increase due to changes in equity in affiliates accounted for by equity method	—	—	—	0	0	—	—	—	—	—	0
Change in equity due to capital increase of consolidated company	—	17	—	—	17	—	—	—	—	—	17
Net changes in items other than shareholders' equity	—	—	—	—	—	(4,268)	83	(2,479)	(6,663)	4,817	(1,846)
Balance at March 31, 2020	¥ 100,000	¥ 56,567	¥ 956,227	¥ (483)	¥ 1,112,311	¥ (430)	¥ 29	¥ 6,114	¥ 5,714	¥ 105,080	¥1,223,106

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2020

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding (loss) gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehen- sive income	Non- controlling interests	Total net assets
Balance at April 1, 2019	\$ 925	\$ 520	\$ 8,440	\$ (4)	\$ 9,881	\$ 35	\$ (0)	\$ 79	\$ 114	\$ 928	\$ 10,924
Profit attributable to owners of parent	—	—	827	—	827	—	—	—	—	—	827
Cash dividends	—	—	(324)	—	(324)	—	—	—	—	—	(324)
Change in scope of consolidation	—	3	(1)	—	1	—	—	—	—	—	1
Increase due to merger	—	—	4	—	4	—	—	—	—	—	4
Increase due to corporate division	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(92)	(92)	—	—	—	—	—	(92)
Cancellation of treasury stock	—	—	(92)	92	—	—	—	—	—	—	—
Increase due to changes in equity in affiliates accounted for by equity method	—	—	—	0	0	—	—	—	—	—	0
Change in equity due to capital increase of consolidated company	—	0	—	—	0	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	—	(39)	0	(22)	(61)	44	(17)
Balance at March 31, 2020	<u>\$ 925</u>	<u>\$ 523</u>	<u>\$ 8,853</u>	<u>\$ (4)</u>	<u>\$ 10,299</u>	<u>\$ (3)</u>	<u>\$ 0</u>	<u>\$ 56</u>	<u>\$ 52</u>	<u>\$ 972</u>	<u>\$ 11,325</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Cash Flows

Year ended March 31, 2020

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2020	2019	2020
Cash flows from operating activities			
Profit before income taxes	¥ 140,662	¥ 157,173	\$ 1,302
Adjustments for:			
Depreciation and amortization	170,448	163,188	1,578
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	11,606	22,107	107
Loss on disposal of property, plant and equipment	11,934	8,056	110
Decrease in liability for retirement benefits	(20,190)	(19,720)	(186)
Increase in allowance for doubtful accounts	728	940	6
Decrease in provision for employees' bonuses	(190)	(1,813)	(1)
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	38
(Decrease) increase in other accruals	(8,706)	6,438	(80)
Interest and dividend income	(1,203)	(1,161)	(11)
Interest expense	19,465	20,030	180
Equity in earnings of affiliates	(1,787)	(1,812)	(16)
Gain on contributions received for construction	(12,191)	(23,724)	(112)
Decrease (increase) in notes and accounts receivable	15,527	(6,888)	143
Increase in inventories	(9,184)	(2,709)	(85)
(Decrease) increase in notes and accounts payable	(16,487)	41,268	(152)
Increase (decrease) in accrued consumption taxes	2,739	(5,276)	25
Other	(2,239)	(1,585)	(20)
Subtotal	305,097	358,679	2,824
Interest and dividend received	1,201	1,159	11
Interest paid	(19,217)	(19,753)	(177)
Income taxes paid	(46,928)	(50,357)	(434)
Net cash provided by operating activities	¥ 240,152	¥ 289,728	\$ 2,223

West Japan Railway Company

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2020

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2020	2019	2020
Cash flows from investing activities			
Payments for time deposits with a maturity in excess of three months	¥ (230)	¥ (231)	\$ (2)
Proceeds from time deposits with a maturity in excess of three months	230	231	2
Purchases of property, plant and equipment	(265,152)	(257,264)	(2,455)
Proceeds from sales of property, plant and equipment	1,564	453	14
Contributions received for construction	21,742	29,932	201
Purchases of investments in securities	(25,507)	(15,289)	(236)
Proceeds from sales of investments in securities	1,923	55	17
Net (increase) decrease in loans receivable	(34)	501	(0)
Other	(3,193)	(5,808)	(29)
Net cash used in investing activities	(268,657)	(247,420)	(2,487)
Cash flows from financing activities			
Net increase in short-term loans	3,791	4,248	35
Net increase in commercial papers	60,000	—	555
Proceeds from long-term loans	20,000	29,700	185
Repayments of long-term loans	(39,205)	(41,326)	(363)
Proceeds from issuance of bonds	10,000	70,000	92
Redemption of bonds	(35,000)	(25,000)	(324)
Payment of long-term payables	(1,645)	(1,583)	(15)
Purchases of treasury stock	(9,999)	(9,999)	(92)
Cash dividends paid to owners of parent	(34,999)	(32,329)	(324)
Cash dividends paid to non-controlling interests	(333)	(114)	(3)
Other	(1,774)	(770)	(16)
Net cash used in financing activities	(29,167)	(7,174)	(270)
Net (decrease) increase in cash and cash equivalents	(57,671)	35,132	(533)
Cash and cash equivalents at beginning of year	136,581	101,448	1,264
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	1,110	—	10
Decrease in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	(1,736)	—	(16)
Cash and cash equivalents at end of year (Note 2)	¥ 78,283	¥ 136,581	\$ 724

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Notes to Consolidated Financial Statements

March 31, 2020

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 ¥108= U.S. \$1.00, the exchange rate prevailing on March 31, 2020. 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)

On March 31, 2020, the Accounting Standards Board of Japan (the “ASBJ”) issued revised “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29), “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30) and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19).

(1) Overview

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 guidances 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 guidances on the consolidated financial statements.

(Accounting Standard for Fair Value Measurement and Related Implementation Guidance)

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30), and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31), along with related updates to “Accounting Standard for Measurement of Inventories” (ASBJ Statement No.9, revised 2019), “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, revised 2019), and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19, revised 2020).

(1) Overview

Given the situation that IASB and FASB have established almost identical detailed guidance for fair value measurement (IFRS 13 Fair Value Measurement under IFRS and ASU 2018-13 Fair Value Measurement (Topic 820) under U.S. GAAP), the ASBJ took the initiative mainly to promote consistency between Japanese and international accounting standards regarding guidance for fair value measurement and required disclosures of financial instruments and issued the “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement.”

As the basic policy in developing accounting standards for fair value measurement, the ASBJ fundamentally incorporated the basic principles of IFRS 13 through a unified measurement method to enhance comparability of financial statements among domestic and foreign entities. However, for any item to be considered arising from business practices in Japan, other treatment for the item shall be determined to the extent that comparability is not impaired.

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)

(2) Scheduled date of adoption

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

(3) Effect of adoption of revised accounting standard and related implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidances on its consolidated financial statements.

(Accounting Standards for Disclosure of Accounting Estimates)

On March 31, 2020, the ASBJ issued “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31).

(1) Overview

Paragraph 125 of International Accounting Standard (“IAS”) 1 “Presentation of Financial Statements” (issued by the IASB in 2003; “IAS 1”) requires disclosure of information about the “major sources of estimation uncertainty.” In this regard, requests have been made for disclosures of major sources of estimation uncertainty in the notes to financial statements prepared in accordance with accounting principles generally accepted in Japan to provide useful information to users of financial statements. In response, the ASBJ developed and issued “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31).

As the basic policy in developing the accounting standard, the ASBJ determined, rather than expanding individual notes, to stipulate the general principle (disclosure objectives), and then to allow an entity to make decisions on specific contents to be disclosed in light of the disclosure objectives. In developing this standard, the basic policy of the ASBJ was to make reference to the provisions in IAS 1.125.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

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)

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

On March 31, 2020, ASBJ issued revised “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24)”

(1) Overview

In response to the recommendation that the ASBJ consider enhancing disclosures for notes to “accounting policies and methods adopted in the cases where the relevant accounting standards are not available” the ASBJ issued the revised “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24).

In addition, this standard provides that, when an entity enhances the disclosure of notes for “accounting policies and methods adopted in the cases where the relevant accounting standards are not available” it should refer to No.1 and 2 of “annotations on corporate accounting principles” in order not to effect accounting practices in cases where the relevant accounting standards are clear.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

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)

(1) Damages due to Typhoon No.19 (October 2019)

The costs of disposal for Shinkansen rolling stock damaged by flooding due to Typhoon No.19 were recorded as “Loss on disposal of property, plant and equipment” in the other income (expenses) section of the consolidated statement of profit or loss.

(2) Impact of novel coronavirus disease

The Company anticipates a significant impact on the operating performance for the next fiscal year due to the decrease in the number of users of railways and the temporary closures and adjustments to operating hours in the Group’s commercial facilities from the impact of novel coronavirus disease.

For the accounting estimates with respect to the recoverability of deferred tax assets and others for the fiscal year ended March 31, 2020, the Company expects the effects, such as a decrease in revenue, to continue for a certain period of time.

2. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2020 and 2019 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>
	2020	2019	2020
Cash and deposits	¥ 78,530	¥ 109,327	\$ 727
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	—	27,500	—
Cash and cash equivalents	<u>¥ 78,283</u>	<u>¥ 136,581</u>	<u>\$ 724</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, 2020 and 2019. 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, 2020 and 2019 are summarized as follows:

<i>Millions of yen</i>						
	2020			2019		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 7,781	¥ 5,206	¥ 2,575	¥ 19,677	¥ 13,666	¥ 6,010
Debt securities:						
Government bonds	274	270	3	274	268	6
Subtotal	8,055	5,477	2,578	19,952	13,935	6,016
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	21,129	24,894	(3,764)	2,279	2,933	(653)
Other	—	—	—	27,500	27,500	—
Subtotal	21,129	24,894	(3,764)	29,779	30,433	(653)
Total	¥ 29,185	¥ 30,371	¥ (1,185)	¥ 49,731	¥ 44,368	¥ 5,363

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>		
	2020		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 72	\$ 48	\$ 23
Debt securities:			
Government bonds	2	2	0
Subtotal	74	50	23
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	195	230	(34)
Subtotal	195	230	(34)
Total	\$ 270	\$ 281	\$ (10)

4. Inventories

Inventories at March 31, 2020 and 2019 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Merchandise and real estate for sale	¥ 26,294	¥ 15,841	\$ 243
Work in progress	67,045	66,687	620
Rails, materials and supplies	23,748	22,299	219
	¥ 117,088	¥ 104,827	\$ 1,084

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, 2020 and 2019 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Investments in:			
Unconsolidated subsidiaries	¥ 23,950	¥ 23,813	\$ 221
Affiliates	57,414	49,624	531
	<u>¥ 81,364</u>	<u>¥ 73,438</u>	<u>\$ 753</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, 2020 and 2019 amounted to ¥743,482 million (\$6,884 million) and ¥734,980 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, 2020 and 2019 totaled ¥2,031 million (\$18 million) and ¥1,025 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 ¥47,141 million (\$436 million) and ¥46,123 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 are as follows:

<i>Millions of yen</i>			
2020			
Carrying value			Fair value
As of April 1, 2019	Net change	As of March 31, 2020	As of March 31, 2020
¥ 327,838	¥ 25,003	¥ 352,841	¥ 723,372
<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 U.S. dollars</i>			
2020			
Carrying value			Fair value
As of April 1, 2019	Net change	As of March 31, 2020	As of March 31, 2020
\$3,035	\$231	\$3,267	\$6,697

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, 2020 and 2019 included increase mainly due to acquisitions of real estate properties in the amount of ¥38,411 million (\$355 million) and ¥31,786 million and decrease mainly due to depreciation in the amount of ¥13,617 million (\$126 million) and ¥12,040 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, 2020 and 2019 ranged from 0.002% to 0.34%, respectively.

Long-term debt at March 31, 2020 and 2019 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.175% to 2.49%, due from 2020 through 2059	¥ 544,986	¥ 569,984	\$ 5,046
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.29% to 3.15%, due in installments from 2020 through 2033	5,553	15,979	51
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.00% to 2.5%, due in installments from 2020 through 2057	355,841	360,400	3,294
Finance lease obligations, at rates ranging from 0.00% to 14.24%, due in installments from 2020 through 2050	31,651	30,861	293
Other	9,875	13,282	91
	947,908	990,507	8,776
Less current portion	(73,073)	(75,379)	(676)
	¥ 874,834	¥ 915,128	\$ 8,100

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2021	¥ 73,073	\$ 676
2022	63,631	589
2023	60,346	558
2024	81,262	752
2025	84,761	784
2026 and thereafter	584,845	5,415
	¥ 947,921	\$ 8,777

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

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, 2020 and 2019 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Lines of credit	¥ 130,000	¥ 130,000	\$ 1,203
Credit utilized	—	—	—
Available credit	¥ 130,000	¥ 130,000	\$ 1,203

9. Pledged Assets

Assets pledged at March 31, 2020 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2020	
Bank deposits included in cash and deposits	¥ 246	\$ 2
Short-term investments	127	1
Investments in other securities	560	5
Land	128	1
Buildings and structures, net	184	1
Other assets	444	4
	¥1,691	\$ 15

The indebtedness secured by such collateral at March 31, 2020 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2020	
Notes and accounts payable	¥45	\$ 0

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

10. Long-Term Payables

Long-term payables at March 31, 2020 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2020 through 2052	¥ 101,969	¥ 102,931	\$ 944
Other	756	1,439	7
	102,725	104,371	951
Less current portion	(1,567)	(1,642)	(14)
	¥ 101,158	¥ 102,728	\$ 936

The aggregate annual maturities of long-term payables subsequent to March 31, 2020 are summarized as follows:

<u>Year ending March 31,</u>	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2021	¥ 1,567	\$ 14
2022	1,309	12
2023	1,167	10
2024	1,245	11
2025	1,327	12
2026 and thereafter	96,108	889
	¥ 102,725	\$ 951

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

11. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 30.62% for the year ended March 31, 2020.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2020 as a percentage of profit before income taxes is as follows:

	2020
Statutory tax rate	30.62 %
Effect of:	
Change in valuation allowance	2.02
Per capita portion of inhabitants' taxes	0.58
Permanent non-deductible expenses	0.28
Special credit of corporation tax	(0.34)
Other	0.14
Effective tax rate	33.30 %

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2019 was omitted because such difference is less than 5% of the statutory tax rate.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

11. Income Taxes (continued)

The significant components of deferred tax assets and liabilities of the Group at March 31, 2020 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Deferred tax assets:			
Provision for employees' bonuses	¥ 11,705	¥ 11,808	\$ 108
Accrued enterprise taxes included in accrued expenses	1,758	2,109	16
Liability for retirement benefits	82,992	87,841	768
Unrealized gain on property, plant and equipment	15,833	15,080	146
Tax loss carryforwards	12,391	11,002	114
Other	54,925	49,210	508
Total gross deferred tax assets	179,607	177,052	1,663
Valuation allowance	(19,734)	(18,434)	(182)
Total deferred tax assets	159,872	158,617	1,480
Deferred tax liabilities:			
Unrealized holding gain on securities	(742)	(2,001)	(6)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,367)	(11,492)	(105)
Gain on valuation of assets of consolidated subsidiaries	(1,161)	(1,161)	(10)
Other	(10,302)	(4,741)	(95)
Total deferred tax liabilities	(23,574)	(19,396)	(218)
Deferred tax assets, net	¥ 136,298	¥ 139,221	\$ 1,262

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

12. Leases

Future minimum lease payments subsequent to March 31, 2020 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2021	¥ 2,781	\$ 25
2022 and thereafter	40,079	371
	<u>¥ 42,860</u>	<u>\$ 396</u>

Future minimum lease receipts subsequent to March 31, 2020 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2021	¥ 327	\$ 3
2022 and thereafter	3,724	34
	<u>¥ 4,051</u>	<u>\$ 37</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, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Retirement benefit obligations at beginning of year	¥ 294,891	¥ 310,492	\$ 2,730
Service cost	11,507	11,643	106
Interest cost	2,203	2,343	20
Actuarial loss	1,527	1,901	14
Retirement benefits paid	(32,907)	(31,486)	(304)
Reclassification of retirement benefit obligation resulting from change from the Simplified Method	1,585	—	14
Increase of retirement benefit obligation resulting from change from the Simplified Method	841	—	7
Other	(504)	(3)	(4)
Retirement benefit obligations at end of year	<u>¥ 279,144</u>	<u>¥ 294,891</u>	<u>\$ 2,584</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, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Plan assets at beginning of year	¥ 18,514	¥ 17,334	\$ 171
Expected return on plan assets	292	285	2
Actuarial loss	(685)	(160)	(6)
Contributions paid	1,613	1,525	14
Retirement benefits paid	(611)	(469)	(5)
Reclassification of retirement benefit obligation resulting from change from the Simplified Method	474	—	4
Other	(586)	—	(5)
Plan assets at end of year	¥ 19,012	¥ 18,514	\$ 176

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Liability for retirement benefits at beginning of year	¥ 7,297	¥ 6,757	\$ 67
Retirement benefit expenses	1,163	1,036	10
Retirement benefits paid	(495)	(455)	(4)
Contributions paid	(128)	(122)	(1)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	(1,111)	—	(10)
Increase resulting from newly consolidated subsidiaries	551	—	5
Other	—	81	—
Liability for retirement benefits at end of year	¥ 7,276	¥ 7,297	\$ 67

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2019 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>
	2020	2019	2020
Funded retirement benefit obligations	¥ 24,041	¥ 21,627	\$ 222
Plan assets at fair value	(19,739)	(19,641)	(182)
	4,302	1,986	39
Unfunded retirement benefit obligations	263,106	281,687	2,436
Net liability for retirement benefits in the consolidated balance sheet	¥ 267,409	¥ 283,673	\$ 2,476
Liability for retirement benefits	269,328	285,843	2,493
Asset for retirement benefits	(1,919)	(2,170)	(17)
Net liability for retirement benefits in the consolidated balance sheet	¥ 267,409	¥ 283,673	\$ 2,476

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, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Service cost	¥ 11,507	¥ 11,643	\$ 106
Interest cost	2,203	2,343	20
Expected return on plan assets	(292)	(285)	(2)
Amortization of unrecognized actuarial gain	(1,449)	(1,694)	(13)
Amortization of prior service cost	(0)	(0)	(0)
Increase of retirement benefit obligation resulting from change from the Simplified Method	841	—	7
Retirement benefit expenses calculated by the Simplified Method	1,163	1,036	10
Other	2	(23)	(0)
Retirement benefit expenses under defined benefit pension plans	<u>¥ 13,976</u>	<u>¥ 13,020</u>	<u>\$ 129</u>

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effects) for the years ended March 31, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Prior service cost	¥ (0)	¥ (0)	\$ (0)
Actuarial gain	(3,662)	(3,756)	(33)
	<u>¥ (3,662)</u>	<u>¥ (3,756)</u>	<u>\$ (33)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2020 and 2019 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Unrecognized prior service cost	¥ 0	¥ 0	\$ 0
Unrecognized actuarial gain	8,797	12,459	81
	<u>¥ 8,797</u>	<u>¥ 12,459</u>	<u>\$ 81</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, 2020 and 2019 are as follows:

	2020	2019
Debt securities	45%	46%
Equity securities	19	23
Other	36	31
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, 2020 and 2019 are principally as follows:

	2020	2019
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	2.0%	2.0%

The discount rate used by the Company can significantly impact the consolidated financial statements, and the sensitivity associated with changes in the discount rate is estimated as follows:

	Effect on defined benefit obligation as of March 31, 2020
Increase by 1.5%	Decrease by ¥24,806 million (\$229 million)

Total contributions required to be paid by certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2020 and 2019 amounted to ¥538 million (\$4 million) and ¥520 million, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Contingent Liabilities

At March 31, 2020, 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 ¥21,168 million (\$196 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.

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 (\$509 million) and legal reserve included in retained earnings amounted to ¥11,327 million (\$104 million) at March 31, 2020 and 2019, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2020 and 2019 are summarized as follows:

	Number of shares			March 31, 2020
	April 1, 2019	Increase	Decrease	
Common stock	192,481,400	—	1,146,900	191,334,500
Treasury stock	129,794	1,146,900	1,146,902	129,792

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

15. Shareholders' Equity (continued)

The decrease in common stock for the year ended March 31, 2020 was due to the cancellation of treasury stock.

The increase in treasury stock for the year ended March 31, 2020 was due to the purchase of treasury stock.

The decrease in treasury stock of 1,146,902 common stock for the year ended March 31, 2020 was due to the cancellation of 1,146,900 shares and changes in equity in affiliates accounted for by the equity method of 2 shares.

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 the equity method of 14 shares.

16. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥8,851 million (\$81 million) and ¥8,893 million for the years ended March 31, 2020 and 2019, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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, 2020 and 2019.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Net unrealized holding loss on securities:			
Amount arising during the year	¥ (6,756)	¥ (453)	\$ (62)
Reclassification adjustments for gain included in consolidated statement of profit or loss	201	—	1
Before tax effect	(6,555)	(453)	(60)
Tax effect	1,982	129	18
Total	(4,572)	(323)	(42)
Net unrealized deferred gain (loss) on hedging instruments:			
Amount arising during the year	151	(249)	1
Before tax effect	151	(249)	1
Tax effect	(46)	76	(0)
Total	105	(172)	0
Retirement benefit liability adjustments:			
Amount arising during the year	(2,212)	(2,062)	(20)
Reclassification adjustments for loss included in consolidated statement of profit or loss	(1,449)	(1,694)	(13)
Before tax effect	(3,662)	(3,756)	(33)
Tax effect	1,142	1,181	10
Total	(2,519)	(2,575)	(23)
Other comprehensive income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	75	79	0
Reclassification adjustments for gain (loss) included in consolidated statement of profit or loss	133	(11)	1
Total	208	68	1
Total other comprehensive loss	¥ (6,778)	¥ (3,003)	\$ (62)

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

18. Amounts per Share

Amounts per share at March 31, 2020 and 2019 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2020	2019	2020
Net assets	¥ 5,847.27	¥ 5,612.63	\$ 54.14
Profit attributable to owners of parent	466.88	533.31	4.32
Cash dividends	182.50	175.00	1.68

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, 2020 and 2019 since the Company had no potentially dilutive stock at March 31, 2020 and 2019.

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 eight years from March 31, 2020. 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 one years from March 31, 2020.

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 in the same manner 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, 2020 and 2019 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>		
	2020		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	¥ 78,530	¥ 78,530	¥ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,063	2,063	—
Trade	132,506	132,506	—
Short-term investments and investments in securities:			
Investments in affiliates	3,437	2,924	(513)
Other securities	28,447	28,447	—
Liabilities:			
Short-term loans	(24,711)	(24,711)	—
Commercial papers	(60,000)	(60,000)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(7,689)	(7,689)	—
Trade	(195,471)	(195,471)	—
Income taxes payable	(16,975)	(16,975)	—
Accrued expenses	(4,438)	(4,438)	—
Deposits (component of deposits and advances received)	(104,983)	(104,983)	—
Long-term debt (including current portion)	(916,256)	(991,008)	(74,751)
Long-term payables (including current portion)	(102,725)	(224,620)	(121,894)
Derivative transactions qualifying for hedge accounting (component of deposits and advances received)	53	53	—

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>		
	2019		
	Carrying value	Estimated fair value	Difference
Assets:			
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	—
Liabilities:			
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 U.S. dollars</i>		
	2020		
	Carrying value	Estimated fair value	Difference
Assets:			
Cash and deposits	\$ 727	\$ 727	\$ —
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	19	19	—
Trade	1,226	1,226	—
Short-term investments and investments in securities:			
Investments in affiliates	31	27	(4)
Other securities	263	263	—
Liabilities:			
Short-term loans	(228)	(228)	—
Commercial papers	(555)	(555)	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(71)	(71)	—
Trade	(1,809)	(1,809)	—
Income taxes payable	(157)	(157)	—
Accrued expenses	(41)	(41)	—
Deposits (component of deposits and advances received)	(972)	(972)	—
Long-term debt (including current portion)	(8,483)	(9,176)	(692)
Long-term payables (including current portion)	(951)	(2,079)	(1,128)
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

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, commercial papers, 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, 2020 and 2019 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2020	2019	2020
Investments in securities			
Unlisted stocks	¥ 82,275	¥ 74,927	\$ 761
Other	2,656	1,135	24

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, 2020 is as follows:

	<i>Millions of yen</i>		
	2020		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 70,899	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,063	0	–
Trade	132,494	11	–
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	127	140	5
Total	¥ 205,585	¥ 152	¥ 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>		
	2020		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 656	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	19	0	–
Trade	1,226	0	–
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	1	1	0
Total	<u>\$ 1,903</u>	<u>\$ 1</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, 2020 and 2019.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2020 and 2019 were as follows:

Currency-related transactions

Method of hedge accounting	Description of transaction	Hedged items	<i>Millions of yen</i>		
			2020		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	¥ 2,526	¥ –	¥ 32 (*1)
	U.S. dollars	(Forecasted transaction)	1,575	–	7 (*1)
	Other		913	–	13 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	364	–	(*2)
	U.S. dollars		225	–	(*2)
	Other		79	–	(*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)
			¥ 10,684	¥ 5,000	¥ 53

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	Notional amount (Over 1 year)	Estimated fair value
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				
	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)
			¥ 12,837	¥ 5,000	¥ (97)

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 U.S. dollars</i>		
			2020		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	\$ 23	\$ –	\$ 0 (*1)
	U.S. dollars	(Forecasted transaction)	14	–	0 (*1)
	Other		8	–	0 (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy				
	Euro	Accounts payable	3	–	(*2)
	U.S. dollars		2	–	(*2)
	Other		0	–	(*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	46	46	(*2)
			<u>\$ 98</u>	<u>\$ 46</u>	<u>\$ 0</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)

20. Derivative Transactions (continued)

Interest-rate related transactions

			<i>Millions of yen</i>		
			2020		
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	¥ 33,100	(*)
			<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 U.S. dollars</i>		
			2020		
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	\$ 371	\$ 306	(*)

(*) 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, 2020 and 2019 is outlined as follows:

<i>Millions of yen</i>							
2020							
	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	¥ 933,416	¥ 226,051	¥ 165,100	¥ 183,632	¥ 1,508,201	¥ –	¥ 1,508,201
Intersegment operating revenues or transfers	16,394	10,290	20,340	297,686	344,712	(344,712)	–
Total	¥ 949,811	¥ 236,341	¥ 185,440	¥ 481,319	¥ 1,852,913	¥ (344,712)	¥ 1,508,201
Segment income	¥ 105,313	¥ 3,855	¥ 34,909	¥ 19,718	¥ 163,797	¥ (3,169)	¥ 160,628
Segment assets	¥ 2,140,857	¥ 111,857	¥ 717,241	¥ 522,881	¥ 3,492,839	¥ (217,582)	¥ 3,275,257
Other items:							
Depreciation and amortization	¥ 138,536	¥ 5,762	¥ 22,822	¥ 3,327	¥ 170,448	¥ –	¥ 170,448
Investment in affiliates accounted for by the equity method	28,397	–	–	13,786	42,184	–	42,184
Increase in property, plant and equipment and intangible assets	188,979	14,214	63,751	11,761	278,707	–	278,707

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Segment Information (continued)

<i>Millions of yen</i>							
2019							
	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	¥ 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)

	Millions of U.S. dollars						
	2020						
	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	\$ 8,642	\$ 2,093	\$ 1,528	\$ 1,700	\$ 13,964	\$ –	\$ 13,964
Intersegment operating revenues or transfers	151	95	188	2,756	3,191	(3,191)	–
Total	\$ 8,794	\$ 2,188	\$ 1,717	\$ 4,456	\$ 17,156	\$ (3,191)	\$ 13,964
Segment income	\$ 975	\$ 35	\$ 323	\$ 182	\$ 1,516	\$ (29)	\$ 1,487
Segment assets	\$ 19,822	\$ 1,035	\$ 6,641	\$ 4,841	\$ 32,341	\$ (2,014)	\$ 30,326
Other items:							
Depreciation and amortization	\$ 1,282	\$ 53	\$ 211	\$ 30	\$ 1,578	\$ –	\$ 1,578
Investment in affiliates accounted for by the equity method	262	–	–	127	390	–	390
Increase in property, plant and equipment and intangible assets	1,749	131	590	108	2,580	–	2,580

“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 ¥3,169 million (\$29 million) and ¥2,453 million for the years ended March 31, 2020 and 2019, respectively, are eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥217,582 million (\$2,014 million) and ¥125,975 million, include corporate assets not allocated to reportable segments of ¥193,689 million (\$1,793 million) and ¥256,452 million, and eliminations of intersegment transactions of ¥411,271 million (\$3,808 million) and ¥382,427 million at March 31, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019 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 years ended March 31, 2020 and 2019 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, 2020 and 2019 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, 2020, was to be approved at a meeting of the shareholders of the Company to be held on June 23, 2020:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥87.5 = U.S.\$0.81 per share)	¥ 16,741	\$ 155

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Subsequent Events (continued)

(2) Bond issuance

The Company issued the following bonds:

Millions of yen (Millions of U.S. dollars)

	The 58th Series of West Japan Railway Bond	The 59th Series of West Japan Railway Bond	The 60th Series of West Japan Railway Bond	The 61st Series of West Japan Railway Bond	The 62nd Series of West Japan Railway Bond	The 63rd Series of West Japan Railway Bond	The 64th Series of West Japan Railway Bond
Total issuance amount	¥60,000 (\$555)	¥55,000 (\$509)	¥15,000 (\$138)	¥15,000 (\$138)	¥15,000 (\$138)	¥10,000 (\$92)	¥20,000 (\$185)
Issue price	¥100 (\$0.92) with a face value of ¥100 (\$0.92)						
Annual interest rate	0.020%	0.130%	0.255%	0.591%	0.729%	0.860%	1.031%
Maturity	May 19, 2023	May 21, 2025	May 21, 2030	May 21, 2040	May 20, 2050	May 21, 2060	May 21, 2070
Issuance date	May 21, 2020						
Type	Unsecured						
Usage of funds	Redemption of bonds and repayment of long-term loans						

(3) Loan agreement

The Company entered into the following agreement:

(1) Purpose	Working capital
(2) Lenders	Multiple financial institutions
(3) Total loan amount	¥75,000 million (\$694 million)
(4) Interest rate	Fixed
(5) Date of borrowing	April to June, 2020
(6) Loan period	Up to maximum of 24 years
(7) Collateral	None
(8) Special clause	None

(4) Commitment line agreement concluded

In addition to the existing ¥130,000 million earthquake-responsive commitment line agreement, the following new commitment line agreement was concluded:

(1) Purpose	Flexible financing
(2) Lenders	Multiple financial institutions
(3) Borrowing capacity	¥300,000 million (\$2,777 million)
(4) Date of agreement	May 26, 2020
(5) Collateral	None