

Non-Consolidated Financial Statements

West Japan Railway Company

*Year ended March 31, 2021
with Independent Auditor's Report*

West Japan Railway Company
Non-Consolidated Financial Statements

Year ended March 31, 2021

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Non-Consolidated Financial Statements

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Independent Auditor's Report

The Board of Directors
West Japan Railway Company

Opinion

We have audited the accompanying non-consolidated financial statements of West Japan Railway Company (the "Company"), which comprise the non-consolidated balance sheet as at March 31, 2021, and the non-consolidated statements of operations, changes in net assets for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at March 31, 2021, and its non-consolidated financial performance 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 Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current period. These matters were addressed in the context of the audit of the non-consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition in railway business (accuracy of aggregation)

A description of this key audit matter is omitted as it is identical to the key audit matter (revenue recognition in railway business (accuracy of aggregation)) paragraph included in the auditor's report in the consolidated financial statements.

Recoverability of deferred tax assets of West Japan Railway Company

A description of this key audit matter is omitted as it is identical to the key audit matter (recoverability of deferred tax assets of West Japan Railway Company) paragraph included in the auditor's report in the consolidated financial statements.

Responsibilities of Management, the Audit and Supervisory Board Member and the Audit and Supervisory Board for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company'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 Audit and Supervisory Board Member and the Audit and Supervisory Board are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the non-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 non-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 non-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 non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company'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 Company'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 non-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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-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.

We communicate with the Audit and Supervisory Board Member and the Audit and Supervisory Board 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 Audit and Supervisory Board Member and the Audit and Supervisory Board 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.

From the matters communicated with the Audit and Supervisory Board Member and the Audit and Supervisory Board, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Company 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 non-consolidated financial statements with respect to the year ended March 31, 2021 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 non-consolidated financial statements.



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Ernst & Young ShinNihon LLC
Osaka, Japan

June 22, 2021

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West Japan Railway Company

Non-Consolidated Balance Sheet

As of March 31, 2021

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Assets			
Current assets:			
Cash and deposits	¥ 197,146	¥ 63,262	\$ 1,792
Accounts receivable	67,894	75,317	617
Allowance for doubtful accounts	(284)	(310)	(2)
Consumption taxes receivable	8,055	—	73
Inventories	22,479	20,764	204
Prepaid expenses and other current assets	88,659	82,837	805
Total current assets	<u>383,951</u>	<u>241,870</u>	<u>3,490</u>
Investments and advances:			
Subsidiaries and affiliates (Note 4)	403,422	400,189	3,667
Other securities	26,359	26,743	239
Total investments	<u>429,781</u>	<u>426,932</u>	<u>3,907</u>
Property, plant and equipment, at cost (Note 5):			
Railway	4,993,389	4,890,975	45,394
Other operations	230,916	221,075	2,099
Construction in progress	94,469	75,445	858
	<u>5,318,775</u>	<u>5,187,496</u>	<u>48,352</u>
Less accumulated depreciation	<u>(3,324,136)</u>	<u>(3,223,287)</u>	<u>(30,219)</u>
Property, plant and equipment, net	<u>1,994,638</u>	<u>1,964,208</u>	<u>18,133</u>
Deferred income taxes (Notes 2 and 6)	164,085	106,848	1,491
Other assets	53,501	54,131	486
Total assets	<u>¥ 3,025,958</u>	<u>¥ 2,793,991</u>	<u>\$ 27,508</u>

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2021	2020	2021
Liabilities and net assets			
Current liabilities:			
Short-term loans (Note 4)	¥ 236,056	¥ 228,979	\$ 2,145
Commercial papers	—	60,000	—
Current portion of long-term debt (Note 10)	61,500	70,800	559
Current portion of long-term payables	1,309	1,567	11
Accounts payable	192,383	187,959	1,748
Prepaid railway fares received	30,130	31,932	273
Deposits and advances received	110,532	76,789	1,004
Accrued expenses	17,981	23,851	163
Income taxes payable (Note 6)	7,354	6,323	66
Provision for employees' bonuses	12,583	25,086	114
Provision for customer point programs	1,091	1,289	9
Provision for loss on disaster	2,230	5,131	20
Other current liabilities	1,746	6,396	15
Total current liabilities	674,900	726,107	6,135
Long-term liabilities:			
Long-term debt (Note 10)	1,396,264	844,162	12,693
Long-term payables	99,848	101,158	907
Accrued retirement benefits	225,189	250,308	2,047
Provision for large-scale renovation of Shinkansen infrastructure	20,833	16,666	189
Provision for environmental safety measures	6,898	8,911	62
Provision for loss on railway line liquidation	8,809	8,887	80
Asset retirement obligations	4,987	5,383	45
Other long-term liabilities	8,021	8,439	72
Total long-term liabilities	1,770,852	1,243,917	16,098
Contingent liabilities (Note 7)			
Net assets:			
Shareholders' equity (Note 8):			
Common stock:			
Authorized – 800,000,000 shares at March 31, 2021 and 2020			
Issued and outstanding – 191,334,500 shares at March 31, 2021 and 2020	100,000	100,000	909
Capital surplus	55,000	55,000	500
Retained earnings (Note 10)	426,994	670,628	3,881
Less treasury stock, at cost (Note 10) – 485 and 648 shares at March 31, 2021 and 2020	(4)	(5)	(0)
Total shareholders' equity	581,990	825,622	5,290
Valuation and translation adjustments:			
Net unrealized holding loss on securities	(1,784)	(1,656)	(16)
Total valuation and translation adjustments	(1,784)	(1,656)	(16)
Total net assets	580,205	823,966	5,274
Total liabilities and net assets	¥ 3,025,958	¥ 2,793,991	\$ 27,508

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company

Non-Consolidated Statement of Operations

Year ended March 31, 2021

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2021	2020	2021
Operating revenues:			
Transportation	¥ 419,460	¥ 856,864	\$ 3,813
Transportation incidentals	12,755	17,180	115
Other operations	27,168	30,062	246
Miscellaneous	48,524	57,796	441
	507,909	961,905	4,617
Operating expenses:			
Personnel	183,878	214,694	1,671
Energy	39,561	45,498	359
Maintenance	151,986	166,403	1,381
Depreciation	141,019	138,226	1,281
Rent	27,643	28,412	251
Miscellaneous taxes	33,697	36,435	306
Other	163,951	212,494	1,490
	741,737	842,166	6,743
Operating (loss) income	(233,828)	119,738	(2,125)
Other income (expenses):			
Interest and dividend income	2,410	2,625	21
Interest expense	(20,261)	(19,344)	(184)
Gain on contributions received for construction (Note 5)	11,841	12,191	107
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (Note 5)	(11,174)	(11,954)	(101)
Loss on impairment of property, plant and equipment	–	(33)	–
Gain on sales of property, plant and equipment	9,199	1,860	83
Loss on sales of property, plant and equipment	(59)	(131)	(0)
Subsidies for employment adjustment	2,169	–	19
Loss on devaluation of investments in subsidiaries and an affiliate	(30,965)	–	(281)
Loss related to novel coronavirus	(4,566)	–	(41)
Other, net (Note 5)	472	851	4
	(40,933)	(13,934)	(372)
(Loss) income before income taxes	(274,761)	105,803	(2,497)
Income taxes (Notes 2 and 6):			
Current	(307)	25,196	(2)
Deferred	(57,129)	7,011	(519)
	(57,437)	32,207	(522)
Net (loss) income	¥ (217,324)	¥ 73,596	\$ (1,975)

See accompanying notes to non-consolidated financial statements.

West Japan Railway Company

Non-Consolidated Statement of Changes in Net Assets

Year ended March 31, 2021

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding loss on securities	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2019	¥100,000	¥ 55,000	¥ 642,050	¥ (5)	¥ 797,044	¥ 2,734	¥ 2,734	¥ 799,779
Net income for the year	–	–	73,596	–	73,596	–	–	73,596
Cash dividends	–	–	(35,018)	–	(35,018)	–	–	(35,018)
Purchase of treasury stock	–	–	–	(9,999)	(9,999)	–	–	(9,999)
Cancellation of treasury stock	–	–	(9,999)	9,999	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	(4,390)	(4,390)	(4,390)
Balance at April 1, 2020	¥100,000	¥ 55,000	¥ 670,628	¥ (5)	¥ 825,622	¥ (1,656)	¥ (1,656)	¥ 823,966
Net loss for the year	–	–	(217,324)	–	(217,324)	–	–	(217,324)
Cash dividends	–	–	(26,308)	–	(26,308)	–	–	(26,308)
Disposal of treasury stock	–	–	(0)	1	0	–	–	0
Net changes in items other than shareholders' equity	–	–	–	–	–	(128)	(128)	(128)
Balance at March 31, 2021	¥100,000	¥ 55,000	¥ 426,994	¥ (4)	¥ 581,990	¥ (1,784)	¥ (1,784)	¥ 580,205

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding loss on securities	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2020	\$ 909	\$ 500	\$ 6,096	\$ (0)	\$ 7,505	\$ (15)	\$ (15)	\$ 7,490
Net loss for the year	–	–	(1,975)	–	(1,975)	–	–	(1,975)
Cash dividends	–	–	(239)	–	(239)	–	–	(239)
Disposal of treasury stock	–	–	(0)	0	0	–	–	0
Net changes in items other than shareholders' equity	–	–	–	–	–	(1)	(1)	(1)
Balance at March 31, 2021	\$ 909	\$ 500	\$ 3,881	\$ (0)	\$ 5,290	\$ (16)	\$ (16)	\$ 5,274

West Japan Railway Company

Notes to Non-Consolidated Financial Statements

March 31, 2021

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

Basis of Presentation of Financial Statements

The accompanying non-consolidated financial statements of West Japan Railway Company (the “Company”) 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 non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the non-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 non-consolidated financial statements relate to the Company only, with investments in subsidiaries and affiliates being stated at cost based on the moving average method.

The accompanying non-consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥110 = U.S. \$1.00, the exchange rate prevailing on March 31, 2021. 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 non-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 Non-Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies

(1) Short-term investments and investments in securities

Investments in subsidiaries and affiliates are stated at cost based on the moving average method. 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 by the moving average method. Investments in non-marketable securities are stated at cost based on the moving average method.

(2) Inventories

The Company's inventories consist of rails, materials and supplies and they are stated at lower of cost or net selling value, cost being determined by the moving average method.

(3) Property, plant and equipment (excluding leased assets)

Depreciation is determined by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures 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 5).

(4) 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.

(5) Research and development costs

Research and development costs are charged to income as incurred.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(6) *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.

(7) *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.

(8) *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.

(9) *Provision for employees' bonuses*

Provision for employees' bonuses is provided at an expected payment amount of the bonuses to employees.

(10) *Provision for customer point programs*

Provision for customer point programs is provided, at a reasonably estimated amount, for expected expenditures corresponding to the points granted to customers, which are expected to be utilized in the following periods.

(11) *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."

(12) *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.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(13) Accrued retirement benefits

Accrued retirement benefits for employees are provided at an expected amount calculated based on the retirement benefit obligation 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 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 over a period of ten years, which is shorter than the average remaining years of service of the eligible employees.

The accounting policies on unrecognized actuarial gain or loss is different with those applied in preparing consolidated financial statements of the Company and its consolidated subsidiaries.

(14) Provision for environmental safety measures

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

(15) 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).

(16) 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.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(17) 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. The Company enters into currency swap contracts to reduce the foreign currency exchange risk arising from monetary liabilities denominated in foreign currencies. The Company also enters into interest-rate swap contracts to reduce the risk arising from interest rates on financial liabilities. 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 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 hedges foreign currency exchange rate risk and interest rate risk on hedged items within certain ranges based on its internal rules for derivative transactions.

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

(18) Asset retirement obligations

An asset retirement obligation is recorded at the time of acquisition or construction of a fixed asset and when there is a statutory or similar obligation associated with the removal of such fixed asset. The asset retirement obligation is measured at the discounted value of the liability at the time the fixed asset is acquired or constructed and the amount of the liability is added to the book value of the relevant fixed asset. The cost component of the obligation is depreciated over the remaining useful life of the fixed asset.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

2. Significant Accounting Estimates

1. Recoverability of Deferred Tax Assets

(1) Net deferred tax assets of ¥164,085 million (\$1,491 million) were recorded in the non-consolidated financial statements for the year ended March 31, 2021. (¥176,134 million (\$1,601 million) before offsetting against deferred tax liabilities)

(2) Information regarding significant accounting estimates for the identified item

The calculation method is omitted as it is identical to the Note 2 “Significant Accounting Estimates” included in the consolidated financial statements.

3. Additional Information

(Loss related to novel coronavirus)

The cost of countermeasures against novel coronavirus disease were recorded as “Loss related to novel coronavirus” in the other income (expenses) section of the non-consolidated statement of operations.

4. Balances with Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 2021 and 2020 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2021	2020	2021
Investments in:			
Subsidiaries	¥ 247,201	¥ 235,128	\$ 2,247
Affiliates	28,809	41,872	261
Advances to subsidiaries	127,410	123,188	1,158
	<u>¥ 403,422</u>	<u>¥ 400,189</u>	<u>\$ 3,667</u>

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

4. Balances with Subsidiaries and Affiliates (continued)

Investments in an affiliate whose fair value is determinable at March 31, 2021 and 2020 are summarized as follows:

<i>Millions of yen</i>						
	2021			2020		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Investments in an affiliate	¥ 1,593	¥ 4,237	¥ 2,644	¥ 1,593	¥ 2,924	¥ 1,331

<i>Millions of U.S. dollars</i>			
2021			
	Carrying value	Estimated fair value	Difference
Investments in an affiliate	\$ 14	\$ 38	\$ 24

At March 31, 2021 and 2020, investments in subsidiaries and affiliates for which it is extremely difficult to determine the fair value are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2021	2020	2021
Investments in:			
Subsidiaries	¥ 247,201	¥ 235,128	\$ 2,247
Affiliates	27,216	40,279	247
	¥ 274,418	¥ 275,408	\$ 2,494

Because no quoted market prices are available for the above securities, it is extremely difficult to determine the fair value.

Amounts due to subsidiaries and affiliates at March 31, 2021 and 2020 are presented in the accompanying non-consolidated balance sheets as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2021	2020	2021
Due to subsidiaries and affiliates:			
Short-term loans	¥ 235,481	¥ 228,457	\$ 2,140

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2021 and 2020 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2021	2020	2021
Land	¥ 643,416	¥ 639,309	\$ 5,849
Buildings	508,796	494,830	4,625
Railway fixtures and structures	2,386,933	2,350,948	21,699
Rolling stock and other vehicles	1,191,113	1,152,770	10,828
Ships	4	4	0
Machinery and equipment	399,060	383,778	3,627
Furniture and fixtures	93,182	88,926	847
Leases	1,798	1,482	16
Construction in progress	94,469	75,445	858
	5,318,775	5,187,496	48,352
Less accumulated depreciation	(3,324,136)	(3,223,287)	(30,219)
Property, plant and equipment, net	<u>¥ 1,994,638</u>	<u>¥ 1,964,208</u>	<u>\$ 18,133</u>

Contributions for the construction of railway facilities are granted by national and municipal governments and others. Such contributions 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. Contributions are recognized as “gain on contributions received for construction” and the amounts directly deducted from the acquisition costs of the related property, plant and equipment are recognized as “loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment” in other income (expenses) in the non-consolidated statement of operations.

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.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

5. Property, Plant and Equipment (continued)

The accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2021 and 2020 amounted to ¥752,073 million (\$6,837 million) and ¥743,482 million, respectively.

The compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2021 and 2020 amounted to nil and ¥2,031 million, respectively.

6. Income Taxes

The aggregate statutory tax rate applicable to the Company was 30.62% for the years ended March 31, 2021 and 2020.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2021 as a percentage of loss before income taxes is as follows:

	2021
Statutory tax rate	30.62 %
Effect of:	
Change in valuation allowance	(9.77)
Per capita portion of inhabitants' taxes	(0.11)
Permanent non-deductible expenses	(0.01)
Other	0.17
Effective tax rate	20.90 %

A reconciliation of the statutory and effective tax rate for the year ended March 31, 2020 has been omitted as the difference between the statutory tax rate and the Company's effective tax rate for the financial reporting purposes were less than 5% of the statutory tax rate.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

6. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities at March 31, 2021 and 2020 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2021	2020	2021
Deferred tax assets:			
Provision for employees' bonuses	¥ 3,853	¥ 7,681	\$ 35
Accrued social insurance premiums included in accrued expenses	101	916	0
Accrued enterprise taxes included in income taxes payable	559	1,145	5
Accrued retirement benefits	68,952	76,644	626
Provision for environmental safety measures	2,286	2,744	20
Unrealized holding loss on securities	829	721	7
Tax loss carryforwards	89,305	—	811
Other	46,736	37,136	424
Total gross deferred tax assets	212,624	126,991	1,932
Valuation allowance related to tax loss carryforwards	(16,207)	—	(147)
Valuation allowance related to total future deductible temporary differences	(20,282)	(9,656)	(184)
Total valuation allowance	(36,490)	(9,956)	(331)
Total deferred tax assets	176,134	117,334	1,601
Deferred tax liabilities:			
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,149)	(10,459)	(101)
Other	(899)	(26)	(8)
Total deferred tax liabilities	(12,048)	(10,486)	(109)
Deferred tax assets, net	¥ 164,085	¥ 106,848	\$ 1,491

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

7. Contingent Liabilities

At March 31, 2021, the Company had a commitment to provide guarantees of loans and was also contingently liable for guarantees of loans, accounts payable-trade and other obligations of the Company's subsidiaries, affiliates and a third party in the aggregate amount of ¥67,836 million (\$616 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.

8. 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 non-consolidated balance sheet and non-consolidated statement of changes in net assets. The Company's legal reserve included in retained earnings at March 31, 2021 and 2020 amounted to ¥11,327 million (\$102 million).

9. Amounts per Share

Amounts per share at March 31, 2021 and 2020 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2021	2020	2021
Net assets	¥ 3,032.42	¥ 4,306.43	\$ 27.56
Net (loss) income	(1,135.84)	384.17	(10.32)
Cash dividends	100.0	182.5	0.90

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

Net (loss) income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year.

West Japan Railway Company

Notes to Non-Consolidated Financial Statements (continued)

9. Amounts per Share (continued)

Diluted net income per share has not been presented for the years ended March 31, 2021 and 2020 since the Company had no potentially dilutive stock at March 31, 2021 and 2020.

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.

10. Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2021, was to be approved at a meeting of the shareholders of the Company to be held on June 23, 2021:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥50.0= U.S.\$0.45 per share)	¥ 9,566	\$ 86

(2) Bond issuance

The Company issued the following bonds:

	<i>Millions of yen (Millions of U.S. dollars)</i>						
	The 72nd Series of West Japan Railway Bond	The 73rd Series of West Japan Railway Bond	The 74th Series of West Japan Railway Bond	The 75th Series of West Japan Railway Bond	The 76th Series of West Japan Railway Bond	The 77th Series of West Japan Railway Bond	The 78th Series of West Japan Railway Bond
Total issuance amount	¥50,000 (\$454)	¥30,000 (\$272)	¥10,000 (\$90)	¥15,000 (\$136)	¥15,000 (\$136)	¥20,000 (\$181)	¥20,000 (\$181)
Issue price	¥100 (\$0.90) with a face value of ¥100 (\$0.90)						
Annual interest rate	0.001%	0.050%	0.230%	0.582%	0.829%	0.961%	1.133%
Maturity	April 22, 2024	April 22, 2026	April 22, 2031	April 22, 2041	April 21, 2051	April 22, 2061	April 22, 2071
Issuance date	April 22, 2021						
Type	Unsecured						
Usage of funds	Redemption of bonds, repayment of long-term loans and capital investments						