Consolidated Financial Statements

West Japan Railway Company

Year ended March 31, 2022
with Independent Auditor's Report

West Japan Railway Company

Consolidated Financial Statements

Year ended March 31, 2022

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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, 2022, and the consolidated statements of operations, 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, 2022, 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.

Emphasis of Matter

As described in Note 3 "Accounting Changes" in the notes to consolidated financial statements, the Group has changed the depreciation method and the useful life of Shinkansen rolling stock among property, plant, and equipment effective the year ended March 31, 2022. Our opinion is not modified in respect of this matter

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the 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)	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 27 "Segment Information" in the notes to consolidated financial statements, revenues from external customers in the Transportation segment	In considering the accuracy of the aggregation of transportation revenues, we engaged IT specialists in our network firm to gain an understanding of the aggregation of

recorded by West Japan Railway Company (the "Company") and its consolidated subsidiaries for the year ended March 31, 2022 included railway business revenues, which consisted mainly of the Company's transportation revenues. Transportation revenues are recorded by aggregating revenues from sales made by the Company and settling those revenues with other companies (e.g., payment of transportation fees owed to lines operated by other companies and receipt of transportation revenues of own lines due from other companies.) The aggregation of transportation revenues incorporates many individual transactions due to the large number of railway passengers, and the Company needs to exchange information necessary for settling revenues (#) with other JR passenger railway companies. As such, there is a mechanism in place that allows for mutual cooperation between multiple IT systems such as transportation revenue system, connected settlement system and so on to ensure that this information is accurate, thus making the Company highly reliant on such IT systems. Given that the accuracy of the aggregation of transportation revenues is a critical factor in the consideration of whether transportation revenues are appropriately reflected in the consolidated financial statements, we determined this to be a key audit matter. (#) In settling revenues involving other passenger railway companies, the Company, jointly with five other JR passenger railway companies, has entered into an agreement with Railway Information Systems Co., Ltd. to utilize an online system (Magnetic-electronic Automatic Reservation System) for selling reserved seat train tickets and the like, and outsource work related to the processing of revenue settlement among the companies.	revenues from issuance of tickets, the flow of data to the recording of transportation revenues in the IT systems, the relevant processes and automated internal controls, and evaluated the effectiveness of internal controls. We mainly performed the following audit procedures. ・ We evaluated the effectiveness of IT general controls by inspecting evidence of approval by the appropriate personnel when changes were made to programs in the IT systems and by inspecting evidence of approval by the appropriate personnel when granting and modifying access rights for material data and files as well as evidence of periodic inspections of access rights. ・ We evaluated the effectiveness of application controls over data interface processing for IT systems of handling transportation revenues (including settlement) by examining the consistency between IT systems. ・ In order to evaluate the effectiveness of application controls over automated aggregation by key systems, we recalculated the aggregation of transportation revenues and evaluated the processing accuracy of the IT systems. ・ With regard to the outsourcing of work related to the calculation of revenue settlement among JR passenger railway companies, we reviewed "Assurance Report of the Independent Auditor on Description of the Outsourced Company's System and Outsourced Company's Design and Operation of Internal Controls" of Railway Information Systems Co., Ltd. and evaluated the design, implementation, and operating effectiveness of controls over contract work performed by Railway Information Systems Co., Ltd. In addition to the above procedures to evaluate the effectiveness of internal controls to examine the accuracy of transportation revenues, we mainly performed the following

	audit procedures. ・ Examining the correlation with transportation revenues by using passenger-kilometers data ・ Examining supporting documentation of transactions used to record transportation revenues and notice of payment from external traders ・ Confirmation of balances of receivables from credit card companies and receivables from other JR passenger railway companies for inter-line fares.

Recoverability of Deferred Tax Assets of West Japan Railway Company	
Description of Key Audit Matter	**Auditor's Response**
The Group recorded deferred tax assets of ¥197,964 million on the consolidated balance sheet as of March 31, 2022. As described in "(a) Recoverability of Deferred Tax Assets" in Note 2, "Significant Accounting Estimates" in the notes to consolidated financial statements, of the above amount, the Company recorded deferred tax assets of ¥170,226 million (¥181,571 million before offsetting against deferred tax liabilities) including deferred tax assets of ¥79,243 million related to tax loss carryforwards of the Company. As described in (a) "Recoverability of Deferred Tax Assets" in Note 2 "Significant Accounting Estimates" in the notes to consolidated financial statements, the Company records deferred tax assets by estimating future taxable income or tax loss based on future business plans. The significant assumptions used in estimating future taxable income are the period required for the railway demand recovery which is expected to take place within fiscal year 2022 due to the spread of vaccines and other factors, the extent of recovery expected to be approximately 90% of the level before the outbreak of COVID-19 and the feasibility of reducing fixed costs such as operation expenses of transportation. Given that the significant assumptions	In considering the recoverability of deferred tax assets, we mainly performed the following audit procedures to examine estimated future taxable income based on the business plan. ・ We assessed the underlying future business plan to evaluate the estimate of future taxable income. We assessed the future business plan by checking it with the most recent budget approved by management. Additionally, in order to evaluate the effectiveness of management's estimation process in business planning, we compared business plans in previous years to actual results. ・ Regarding management's view of the time of the recovery in volume of railway usage, which declined due to the impact of COVID-19 and the extent of the recovery, which are significant assumptions included in the future business plans, we held discussions with management and examined the consistency of the assumption by comparing with the results of trend analysis of historical performance and report on the effects of the normalization of working from home by external research organizations and analysis of the flow of people at major stations. ・ In order to evaluate the feasibility of

applied in the future business plan involve uncertainties of the impact on railway usage in the event that COVID-19 becomes more prevalent again and require management's judgement in assessing the recoverability of deferred tax assets, we determined this to be a key audit matter.	reducing fixed costs such as operation expenses of transportation, we made inquiry to management and performed trend analysis by historical performance. ・ We conducted a sensitivity analysis on significant assumptions of the impact on railway usage in the event COVID-19 becomes more prevalent again and evaluated management's assessment of estimation uncertainties in the future business plan. ・ We examined the amount of future deductible temporary differences and tax loss carryforwards by involving tax specialists, and we also examined the schedule of the years in which they were expected to be reversed or expired.

Impairment of Property, Plant and Equipment Held by West Japan Railway Hotel Development Ltd.

Description of Key Audit Matter	Auditor's Response
In addition to the railway business, the Group is also engaged in "Sales of goods and food services" as well as "Real estate" and "Hotel" businesses and it holds a significant amount of property, plant and equipment. As described in (b) "Impairment of Property, Plant and Equipment" in Note 2 "Significant Accounting Estimates" in the notes to consolidated financial statements, property, plant and equipment held by West Japan Railway Hotel Development Ltd., which is a consolidated subsidiary that operates the main hotels of the Group, amounted to ¥26,442 million as of March 31, 2022. West Japan Railway Hotel Development Ltd. determined that there were indications of impairment for the asset groups related to its property, plant and equipment during the year ended March 31, 2022 as they are continuously making operating loss due to the deterioration of the business environment as a result of the decrease in number of guests and daily rate impacted by COVID-19. However, an impairment loss was not recognized as the estimated future cash flows over the remaining useful lives of major assets	We mainly performed the following audit procedures to assess the estimated amount of undiscounted future cash flows used in determining whether it was necessary to recognize impairment loss on property, plant and equipment of West Japan Railway Hotel Development Ltd. ・ We compared the cash flow projection period with the remaining economic useful lives of the major assets (buildings). ・ We evaluated the consistency between the estimated future cash flows and the business plan approved by management. ・ We compared the business plan for previous years with actual results to evaluate the effectiveness of management's estimation process. ・ In order to consider management's assessment of future uncertainty, about regarding management's view of the time of the recovery in the number of guests, which had declined due to the impact of COVID-19, and the extent of the recovery, which serve as the basis for the

generated from the asset groups exceeded the carrying value. The estimated future cash flows generated from the continuous use of the asset groups are determined based on the medium- to long-term business plan approved by management and the assumed performance levels for periods subsequent to the period covered by the business plan. As described in (b) "Impairment of Property, Plant and Equipment" in Note 2 "Significant Accounting Estimates" in the notes to consolidated financial statements, significant assumptions in estimating future cash flows are the period required for the recovery of the number of guests declined due to the impact of COVID-19 which is expected to take place gradually within fiscal year 2022, the extent of the recovery which is expected to be the same level as before the outbreak of COVID-19 and the performance for periods subsequent to the period covered by the business plan. Given that the significant assumptions used to estimate the future cash flows involve uncertainty due to delayed containment of COVID-19 and require management's judgement, we determined this to be a key audit matter.	business plan, we discussed with management and conducted a sensitivity analysis, taking into account the fluctuation caused by future uncertainties. ・ Regarding the significant assumptions, we inspected industry trends and the latest available external data below to assess the consistency. 1. Period required for the recovery of the number of guests and the extent of the recovery Examined the consistency of the assumptions based on report by external research organizations on future prospects for domestic accommodation demand and publication of WHO (World Health Organization) and IATA (International Air Transport Association) on the activation of human flow. 2. Performance for periods subsequent to the period covered by the business plan Examined the consistency of the assumptions based on the published materials containing reports on forecasts of macroeconomic indicators and future prospects for domestic accommodation demand.

Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management and the Audit and Supervisory Committee 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 Audit and Supervisory Committee is 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 Audit and Supervisory Committee 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 Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated 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 Committee, we determine those matters that were of most significance in the audit of the 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 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, 2022 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

August 9, 2022

/s/ Kaname Matsumoto
Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

/s/ Yoshihiro Shibata
Yoshihiro Shibata
Designated Engagement Partner
Certified Public Accountant

/s/ Masahiko Naka
Masahiko Naka
Designated Engagement Partner
Certified Public Accountant

West Japan Railway Company

Consolidated Balance Sheet

As of March 31, 2022

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Assets			
Current assets:			
Cash and deposits *(Notes 6, 13 and 24)*	¥ 319,843	¥ 210,291	$ 2,643
Short-term investments *(Notes 7, 13 and 24)*	79	24	0
Notes and accounts receivable *(Notes 19 and 24)*:			
Unconsolidated subsidiaries and affiliates	1,552	1,167	12
Trade	165,334	125,916	1,366
Less allowance for doubtful accounts	(588)	(638)	(4)
Inventories *(Note 8)*	145,884	118,899	1,205
Prepaid expenses and other current assets *(Note 19)*	85,943	75,948	710
Total current assets	718,048	531,609	5,934
Investments:			
Unconsolidated subsidiaries and affiliates *(Notes 9 and 24)*	64,838	67,589	535
Other securities *(Notes 7, 13 and 24)*	32,681	35,515	270
Total investments	97,520	103,105	805
Property, plant and equipment, at cost *(Notes 2, 10, 11 and 13)*:			
Land	782,009	783,246	6,462
Buildings and structures	3,611,474	3,534,686	29,846
Machinery, equipment and vehicles	1,668,097	1,634,977	13,785
Tools, furniture and fixtures	188,658	187,551	1,559
Construction in progress	150,783	118,904	1,246
	6,401,023	6,259,365	52,901
Less accumulated depreciation	(3,791,242)	(3,691,310)	(31,332)
Property, plant and equipment, net	2,609,781	2,568,055	21,568
Deferred income taxes *(Notes 2 and 15)*	197,964	191,769	1,636
Asset for retirement benefits *(Note 17)*	3,134	2,595	25
Other assets *(Note 13)*	74,831	80,246	618
Total other assets	275,930	274,612	2,280
Deferred assets			
Share issuance costs	1,140	–	9
Total deferred assets	1,140	–	9
Total assets *(Note 27)*	¥ 3,702,421	¥ 3,477,382	$ 30,598

	Millions of yen		Millions of U.S. dollars (Note 1)
	2022	2021	2022
Liabilities and net assets			
Current liabilities:			
Short-term loans *(Notes 12 and 24)*	¥ 14,229	¥ 19,474	$ 117
Current portion of long-term debt *(Notes 12, 24 and 25)*	98,420	63,732	813
Current portion of long-term payables *(Notes 14 and 24)*	1,167	1,309	9
Notes and accounts payable *(Notes 13, 19, 24 and 25)*:			
Unconsolidated subsidiaries and affiliates	2,043	3,132	16
Trade	160,570	206,477	1,327
Prepaid railway fares received *(Note 19)*	30,404	30,202	251
Deposits and advances received *(Note 24)*	188,008	181,068	1,553
Accrued expenses *(Note 24)*	25,498	28,450	210
Income taxes payable *(Notes 15 and 24)*	7,438	13,691	61
Provision for employees' bonuses	23,480	23,473	194
Provision for customer point programs	654	714	5
Provision for loss on disaster	1,205	2,230	9
Other current liabilities *(Note 19)*	22,777	17,158	188
Total current liabilities	575,898	591,116	4,759
Long-term liabilities:			
Long-term debt *(Notes 12, 24 and 25)*	1,557,855	1,426,947	12,874
Long-term payables *(Notes 14 and 24)*	98,681	99,848	815
Liability for retirement benefits *(Note 17)*	238,077	254,830	1,967
Provision for large-scale renovation of Shinkansen infrastructure	25,000	20,833	206
Provision for environmental safety measures	5,880	6,898	48
Provision for loss on railway line liquidation	16,627	8,809	137
Deferred income taxes *(Notes 2 and 15)*	1,145	1,846	9
Other long-term liabilities	109,042	109,994	901
Total long-term liabilities	2,052,311	1,930,009	16,961
Contingent liabilities *(Note 18)*			
Net assets:			
Shareholders' equity *(Note 20)*:			
Common stock			
Authorized – 800,000,000 shares at March 31, 2022 and 2021			
Issued and outstanding – 244,001,600 and 191,334,500 shares at March 31, 2022 and 2021	226,136	100,000	1,868
Capital surplus	183,812	57,454	1,519
Retained earnings *(Note 28)*	561,874	696,843	4,643
Less treasury stock, at cost – 129,719 and 129,629 shares at March 31, 2022 and 2021	(482)	(482)	(3)
Total shareholders' equity	971,341	853,815	8,027
Accumulated other comprehensive (loss) income:			
Net unrealized holding loss on securities	(1,270)	(780)	(10)
Net unrealized deferred gain on hedging instruments	–	0	–
Retirement benefits liability adjustments *(Note 17)*	(1,131)	17	(9)
Total accumulated other comprehensive loss	(2,402)	(762)	(19)
Non-controlling interests	105,272	103,203	870
Total net assets	1,074,211	956,256	8,877
Total liabilities and net assets	¥ 3,702,421	¥ 3,477,382	$ 30,598

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Operations

Year ended March 31, 2022

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Operating revenues *(Notes 11 and 27)*	¥ 1,031,103	¥ 920,046	$ 8,521
Operating expenses:			
Transportation, other services and cost of sales *(Note 11)*	987,857	998,025	8,164
Selling, general and administrative expenses *(Note 21)*	162,338	167,528	1,341
	1,150,195	1,165,554	9,505
Operating loss *(Note 27)*	(119,091)	(245,507)	(984)
Other income (expenses):			
Interest and dividend income	3,255	936	26
Interest expense	(21,450)	(20,455)	(177)
Equity in earnings of affiliates	1,022	1,909	8
Gain on contributions received for construction *(Note 10)*	19,678	11,841	162
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment *(Note 10)*	(18,375)	(10,666)	(151)
Gain on sales of property, plant and equipment *(Note 11)*	33,674	10,407	278
Loss on sales of property, plant and equipment	(185)	(109)	(1)
Employment adjustment subsidies	10,506	8,307	86
Loss related to novel coronavirus *(Note 5)*	(1,804)	(11,879)	(14)
Increase in provision for loss on railway line liquidation	(8,638)	–	(71)
Loss on devaluation of investments in securities *(Note 7)*	(4,293)	(15,721)	(35)
Other, net *(Note 11)*	128	(3,766)	1
	13,518	(29,195)	111
Loss before income taxes	(105,573)	(274,702)	(872)
Income taxes *(Note 15)*:			
Current	11,378	9,990	94
Deferred	(6,186)	(50,812)	(51)
	5,191	(40,822)	(42)
Loss	(110,764)	(233,880)	(915)
Profit(loss) attributable to non-controlling interests	2,433	(714)	20
Loss attributable to owners of parent	¥ (113,198)	¥ (233,166)	$ (935)

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Comprehensive Income

Year ended March 31, 2022

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Loss	¥ (110,764)	¥ (233,880)	$ (915)
Other comprehensive loss (*Note 22*):			
Net unrealized holding loss on securities	(484)	(362)	(4)
Net unrealized deferred loss on hedging instruments	–	(37)	–
Retirement benefit liability adjustments *(Note 17)*	(975)	(6,174)	(8)
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to owners of parent	(1)	38	(0)
Total other comprehensive loss	(1,462)	(6,535)	(12)
Total comprehensive loss	¥ (112,226)	¥ (240,416)	$ (927)

Comprehensive income (loss) attributable to owners of parent and non-controlling interests for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Comprehensive loss attributable to owners of parent	¥ (114,838)	¥ (239,642)	$ (949)
Comprehensive income (loss) attributable to non-controlling interests	2,611	(773)	21

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2022

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding loss on securities	Net unrealized deferred gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehen-sive (loss) income	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥ 100,000	¥ 56,567	¥ 956,227	¥ (483)	¥ 1,112,311	¥ (430)	¥ 29	¥ 6,114	¥ 5,714	¥ 105,080	¥ 1,223,106
Cumulative effects of changes in accounting policies	–	–	91	–	91	–	–	–	–	94	186
Restated balance	100,000	56,567	956,318	(483)	1,112,403	(430)	29	6,114	5,714	105,175	1,223,292
Cash dividends	–	–	(26,308)	–	(26,308)	–	–	–	–	–	(26,308)
Loss attributable to owners of parent	–	–	(233,166)	–	(233,166)	–	–	–	–	–	(233,166)
Disposal of treasury stock	–	–	(0)	1	0	–	–	–	–	–	0
Increase due to purchase of shares of a consolidated subsidiary	–	886	–	–	886	–	–	–	–	–	886
Net changes in items other than shareholders' equity	–	–	–	–	–	(350)	(29)	(6,096)	(6,476)	(1,972)	(8,448)
Balance at April 1, 2021	¥ 100,000	¥ 57,454	¥ 696,843	¥ (482)	¥ 853,815	¥ (780)	¥ 0	¥ 17	¥ (762)	¥ 103,203	¥ 956,256
Issuance of new shares	126,136	126,136			252,273						252,273
Cash dividends	–	–	(21,766)	–	(21,766)	–	–	–	–	–	(21,766)
Loss attributable to owners of parent	–	–	(113,198)	–	(113,198)	–	–	–	–	–	(113,198)
Change in scope of consolidation	–	–	(8)	–	(8)	–	–	–	–	–	(8)
Increase due to merger	–	–	4	–	4	–	–	–	–	–	4
Purchase of treasury stock	–	–	–	(0)	(0)	–	–	–	–	–	(0)
Increase due to changes in equity in affiliates accounted for by the equity method	–	–	–	0	0	–	–	–	–	–	0
Increase due to purchase of shares of a consolidated subsidiary	–	221	–	–	221	–	–	–	–	–	221
Net changes in items other than shareholders' equity	–	–	–	–	–	(490)	(0)	(1,149)	(1,639)	2,069	429
Balance at March 31, 2022	¥ 226,136	¥ 183,812	¥ 561,874	¥ (482)	¥ 971,341	¥ (1,270)	¥ –	¥(1,131)	¥ (2,402)	¥ 105,272	¥ 1,074,211

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2022

	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	Net unrealized deferred gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehen-sive (loss) income	Non-controlling interests	Total net assets
Balance at April 1, 2021	$ 826	$ 474	$ 5,759	$ (3)	$ 7,056	$ (6)	$ 0	$ 0	$ (6)	$ 852	$ 7,902
Issuance of new shares	1,042	1,042	–	–	2,084	–	–	–	–	–	2,084
Cash dividends	–	–	(179)	–	(179)	–	–	–	–	–	(179)
Loss attributable to owners of parent	–	–	(935)	–	(935)	–	–	–	–	–	(935)
Change in scope of consolidation	–	–	(0)	–	(0)	–	–	–	–	–	(0)
Increase due to merger	–	–	0	–	0	–	–	–	–	–	0
Purchase of treasury stock	–	–	–	(0)	(0)	–	–	–	–	–	(0)
Increase due to changes in equity in affiliates accounted for by the equity method	–	–	–	0	0	–	–	–	–	–	0
Increase due to purchase of shares of a consolidated subsidiary	–	1	–	–	1	–	–	–	–	–	1
Net changes in items other than shareholders' equity	–	–	–	–	–	(4)	(0)	(9)	(13)	17	3
Balance at March 31, 2022	$ 1,868	$ 1,519	$ 4,643	$ (3)	$ 8,027	$ (10)	$ –	$ (9)	$ (19)	$ 870	$ 8,877

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Cash Flows

Year ended March 31, 2022

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Cash flows from operating activities			
Loss before income taxes	¥ (105,573)	¥ (274,702)	$ (872)
Adjustments for:			
Depreciation and amortization	160,868	173,468	1,329
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	18,375	10,666	151
Loss on disposal of property, plant and equipment	5,984	5,982	49
Gain on sales of property, plant and equipment	(33,488)	(9,088)	(276)
Decrease in liability for retirement benefits	(18,686)	(23,911)	(154)
(Decrease) increase in allowance for doubtful accounts	(113)	311	(0)
Increase (decrease) in provision for employees' bonuses	4	(13,937)	0
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	34
Increase (decrease) in other accruals	5,721	(5,486)	47
Interest and dividend income	(3,255)	(936)	(26)
Interest expense	21,450	20,455	177
Equity in earnings of affiliates	(1,022)	(1,909)	(8)
Gain on contributions received for construction	(19,678)	(11,841)	(162)
(Increase) decrease in notes and accounts receivable	(39,478)	11,047	(326)
(Increase) decrease in inventories	(22,680)	3,874	(187)
(Decrease) increase in notes and accounts payable	(41,733)	30,483	(344)
Increase (decrease) in consumption taxes payable, net	10,194	(11,197)	84
Other	8,563	22,626	70
Subtotal	(50,382)	(69,930)	(416)
Interest and dividend received	3,254	939	26
Interest paid	(21,215)	(20,191)	(175)
Income taxes paid	(18,124)	(14,113)	(149)
Net cash used in operating activities	¥ (86,468)	¥ (103,295)	$ (714)

West Japan Railway Company

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2022

	Millions of yen		*Millions of U.S. dollars (Note 1)*
	2022	2021	2022
Cash flows from investing activities			
Purchases of property, plant and equipment	¥ (240,480)	¥ (242,047)	$ (1,987)
Proceeds from sales of property, plant and equipment	34,832	12,850	287
Contributions received for construction	26,365	22,793	217
Purchases of investments in securities	(1,829)	(3,020)	(15)
Proceeds from sales of investments in securities	1,582	812	13
Net increase in loans receivable	(3,144)	(927)	(25)
Other	(6,036)	(2,153)	(49)
Net cash used in investing activities	(188,711)	(211,692)	(1,559)
Cash flows from financing activities			
Net decrease in short-term loans	(5,104)	(5,448)	(42)
Net decrease in commercial papers	–	(60,000)	–
Proceeds from long-term loans	68,600	283,600	566
Repayments of long-term loans	(36,952)	(36,507)	(305)
Proceeds from issuance of bonds	160,000	330,000	1,322
Redemption of bonds	(25,000)	(35,000)	(206)
Payment of long-term payables	(1,309)	(1,567)	(10)
Proceeds from issuance of new shares	250,857	–	2,073
Purchases of treasury stock	(0)	–	(0)
Proceeds from sales of treasury stock	–	0	–
Cash dividends paid to owners of parent	(23,214)	(24,870)	(191)
Cash dividends paid to non-controlling interests	(305)	(311)	(2)
Other	(2,885)	(3,144)	(23)
Net cash provided by financing activities	384,685	446,749	3,179
Net increase in cash and cash equivalents	109,505	131,761	905
Cash and cash equivalents at beginning of year	210,045	78,283	1,735
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	45	–	0
Cash and cash equivalents at end of year *(Note 6)*	¥ 319,596	¥ 210,045	$ 2,641

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Notes to Consolidated Financial Statements

March 31, 2022

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 U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen solely for convenience of readers outside Japan and, as a matter of arithmetic computation only, at ¥121= U.S. $1.00, the exchange rate prevailing on March 31, 2022. 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.

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 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

Securities for which quoted market prices are available 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.

Securities and others without a quoted market price classified as other securities are stated at cost primarily based on the moving average method.

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 by the following methods:

Merchandise:	Principally the retail cost method or the last purchase price method
Real estate for sale and work in progress:	Specific identification method
Rails, materials and supplies:	Principally the moving average method

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

Depreciation is determined principally 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 10).

(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, principally a period of five years.

(8) Deferred assets

Share issuance costs are amortized by the straight-line method over a period of three years.

(9) Research and development costs

Research and development costs are charged to income as incurred.

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

Summary of Significant Accounting Policies (continued)

(10) Goodwill

Goodwill is amortized by the straight-line method over a period of five years.

(11) 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.

(12) 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.

(13) 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.

(14) Provision for employees' bonuses

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

(15) 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 of the shopping center business, which are expected to be utilized in following periods.

(16) 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."

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

Summary of Significant Accounting Policies (continued)

(17) 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”).

(18) 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.

(19) 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.

(20) 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 bridges, electrical facilities and other items along the closed Sanko Line (running between Gotsu station and Miyoshi station).

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

Summary of Significant Accounting Policies (continued)

(23) Revenue Recognition

The Group mainly recognizes revenue at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the transfer of goods or services to customers based on the following five-step approach.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations in the contract
Step 5: Recognize revenue when (or as) the performance obligations are satisfied

The basis for recognizing revenue in each business segment is as follows:

Transportation business

In the transportation business, the Group provides passenger transportation services mainly railroad services, and is obligated to provide passenger transportation services to its customers in accordance with transportation agreements. The Group recognizes revenue when the performance obligation is satisfied upon completion of the passenger transportation services or over time.

Goods and food services business

In the goods and food services business, the Group sells goods and food mainly at stores located in train stations. The Group determines that the performance obligation is satisfied and a customer acquires control over the merchandise typically at the time of delivery of the merchandise to a customer, and recognizes revenue at the time of delivery of the merchandise.

Real estate business

In the real estate sales business, the Group mainly sells condominiums along the railway, and is obligated to deliver properties to customers based on real estate sales contracts. The Group determines the performance obligation is satisfied and recognizes revenue when the property is delivered to customers.

In the real estate rental business, the Group mainly leases stations and surrounding facilities. The Group recognizes revenues from these property leases over the respective lease terms in accordance with the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, March 30, 2007).

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

Summary of Significant Accounting Policies (continued)

(23) Revenue Recognition (continued)

Other businesses

Hotel business

In the hotel business the Group mainly provides lodging and banquet services in station buildings located on station sites, and is obligated to provide facilities and services to customers based on the terms of use. The Group determines the performance obligation is satisfied, and recognizes revenue when the customers use the facilities, or services are provided.

Travel agency business

In the travel agency business, the Group is mainly engaged in arranging travel and selling in-house travel products, and is obligated to arrange for railroad or other reservations, issue accommodation tickets, and conduct tours for its customers in accordance with the travel conditions. The Company determines the performance obligation is satisfied and recognizes revenue when it makes the reservations and issues the tickets or over the period of the travel.

Construction business

In the construction business, the Group is primarily engaged in the construction of railroad-related projects, condominiums, and public facilities, and is obligated to deliver such facilities to customers under construction contracts and other agreements. The Group recognizes revenue as the performance obligation is satisfied for those assets for which the Group determines that benefits from the assets are enhanced for customers. The measurement of progress is calculated by the input method based on cost incurred.

The Group applies an alternative treatment to construction contracts and other contracts that have a very short period of time from the date of inception of the contract to the date, and does not recognize revenue over time and recognizes revenue when the performance obligation is fully satisfied.

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

Summary of Significant Accounting Policies (continued)

(23) Revenue Recognition (continued)

Gross and net presentation of revenues

When the Group acts as a principal in a transaction, the Group recognizes revenue at the gross amount of the consideration received from the customer. When the Group acts as an agent in a transaction on behalf of a third party, the Group present revenues in the net amount of the total consideration received from the customer less the amount collected on behalf of the third party.

The Group considers the following criteria when determining whether a transaction is a principal or agent transaction.

- Whether the entity has primary responsibility for fulfilling its commitments.
- Whether the entity has inventory risk before, during or after the customer places an order, or during shipment or returns.
- Whether the entity has discretionary pricing authority.

Point Program

The Group operates a point program for its members. The points awarded for the use of the Group's passenger transportation services can be used to receive future services provided by the Group and other partners. The Group recognizes the points granted as performance obligations and records them as contract liabilities and allocates transaction prices to each performance obligation based on a percentage of the arm’s length sales price, taking into account the percentage of services provided and expected breakage amount, as appropriate. The transaction price allocated to the performance obligation related to the point program is deferred as a “contract liability” and revenue is recognized upon the redemption of the points.

Significant financing component

The Group does not have contracts that include a significant financing component.

(24) 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.

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

Summary of Significant Accounting Policies (continued)

(25) 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

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.

2. Significant Accounting Estimates

(a) Recoverability of Deferred Tax Assets

1. Net deferred tax assets of ¥170,226 million ($1,406 million) and ¥164,085 million were recorded by the Company (¥181,571 million ($1,500 million) and ¥176,134 million before offsetting against deferred tax liabilities) as of March 31, 2022 and 2011, respectively.

2. Information regarding the significant accounting estimates for the identified item

   1) Method of Calculation

      Of the amount of deferred tax assets recorded in the consolidated financial statements, a large proportion was attributable to the Company in the amount of ¥170,226 million ($1,406 million) as of March 31, 2022. When recording deferred tax assets, future taxable income or tax loss is estimated based on the future business plan that is based on reasonable assumptions.

2. Significant Accounting Estimates (continued)

(a) Recoverability of Deferred Tax Assets (continued)

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

2) Significant Assumptions

In estimating future taxable income, the Company incorporated the impact of the novel coronavirus disease (“COVID-19”) based on certain assumptions. Regarding transportation revenues, which account for a large part of the Company’s operating revenues, while the current level of railway usage is still low and the future outcome is uncertain, it is assumed that railway demand will gradually recover during the year ending March 31, 2023 due to factors such as the vaccination rollout.

Regarding the extent of the recovery, nevertheless it is difficult to predict the behavioral changes of customers, the Company assumed that the utilization level will be approximately 90% of the level before the outbreak of COVID-19, by making references to various survey results and recovery of customer demand during the year ended March 31, 2022

In addition, in the “Medium-Term Management Plan 2022” (revised and announced in October 2020), the Group is aiming for early financial foundation recovery through cost structure reform and plans to implement cost savings of transportation expenses over the next mid-term business plan.

3) Financial Impact for the Following Year

The Company believes that the above is management’s best estimate based on information available at this time. If the containment of COVID-19 is delayed longer than expected, it is possible that the amount of deferred tax assets recorded in the next year could be limited, which may have a certain impact on financial performance.

(b) Impairment of Property, Plant and Equipment

1. Property, plant and equipment of ¥26,442 million ($218 million) and ¥27,529 million, which is mainly consisted of building, was held by West Japan Railway Hotel Development, Ltd. (hereinafter “WJRHDL”), a consolidated subsidiary of the Company as of March 31, 2022 and 2021, respectively.

2. Significant Accounting Estimates (continued)

(b) Impairment of Property, Plant and Equipment (continued)

2. Information regarding significant accounting estimates for the identified item

1) Method of Calculation

As of March 31, 2022, WJRHDL that operates the main hotels of the Group, recorded property, plant and equipment of ¥26,442 million ($218 million). After determining whether there are indications of impairment, an impairment loss is recognized in the event that the estimated amount of future cash flows generated from property, plant and equipment under a future business plan based on reasonable assumptions is less than its carrying value.

For the year ended March 31, 2022, since the number of guests and the room rates declined due to the impact of COVID-19 and the business environment deteriorated significantly, WJRHDL has recorded consecutive operating losses. Therefore, WJRHDL determined that there were indications of impairment. However, no impairment loss was recognized as the estimated future cash flows generated from the property, plant and equipment over the remaining useful lives of the major component of property, plant and equipment exceeded the carrying value. Impairment loss was recognized for certain other property, plant and equipment related to a hotel that WJRHDL has decided to close.

2) Significant Assumptions

The estimated future cash flows were calculated based on medium- to long-term business plan. In the business plan, WJRHDL assumes that the number of guests will gradually recover during the year ending March 31, 2023 due to factors such as relaxation of restrictions including “Priority measures to prevent the spread,” the vaccination rollout and penetration of oral medication. The extent of the recovery was estimated from sources such as survey results, and it is expected to return to the same level as the level before the outbreak of COVID-19 during second half of the year ending March 31, 2023, and it is assumed that this will continue at the same level for periods subsequent to the period covered by the business plan.

3) Financial Impact for the Following Year

WJRHDL believes that the above is management’s best estimate based on information available at this time. If the containment of COVID-19 is delayed longer than expected, it is possible that the future cash flows could be lower than the amount estimated in the year ended March 31, 2022 and an impairment loss could be recorded.

3. Accounting Changes

(Application of "Accounting Standard for Revenue Recognition")

Effective from the beginning of the year ended March 31, 2022, the Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and therefore recognizes revenue at an amount expected to be received in transferring control of promised goods or services.

As a result of this application for the transactions in which the Group acts as principal in a transaction in which goods or services are provided to customers, including mainly in-house travel products, for which the Group previously recognized at the net amount received from customers less the amount paid to suppliers, the Group now recognizes revenue at the gross amount of the consideration received from customers.

Regarding goods purchased for resale, the Group recognized revenue at the gross amount of the consideration received from customers. However, for transactions in which the Group acts as an agent in providing goods or services to customers, revenue is recognized at the net amount calculated based on the gross amount less amounts paid to suppliers.

The changes in accounting policies were in principle, applied retrospectively, and the consolidated financial statements for the previous year have been prepared on a retrospective basis. However, the following methods prescribed in Paragraph 85 of the Accounting Standard for Revenue Recognition are applied.

1) The new accounting policy was not retrospectively applied to contracts where nearly all the revenue amounts had been recognized in accordance with previous treatment prior to the beginning of the year ended March 31,2021.

2) For variable consideration included in contracts where nearly all the revenue amounts had been recognized in accordance with previous treatment prior to the beginning of the year ended March 31,2022, comparative amount was retrospectively applied using the amount at the time the uncertainty regarding the amount of the variable consideration is resolved.

3) For contract modifications carried out prior to the beginning of the year ended March 31, 2021, the new accounting policy was retrospectively applied to them based on the contractual terms reflecting all contract modifications made.

As a result, compared to before retrospective application, for the year ended March 31, 2021, operating revenues increased by ¥21,874 million, operating expenses of transportation, other services and cost of sales decreased by ¥22,429 million, selling, general and administrative expenses decreased by ¥592 million and operating loss, loss before income taxes, and loss decreased by ¥37 million. In addition, the cumulative effect is reflected to the balance of net assets of April 1, 2020, and retained earnings as of April 1, 2020 increased by ¥91 million.

3. Accounting Changes (continued)

(Application of “Accounting Standard for Revenue Recognition”) (continued)

Due to application of “Accounting Standard for Revenue Recognition,” “Provision for customer point programs” presented in “Current liabilities” in the consolidated balance sheet as of March 31 2021, is changed to “Deposits and advances received” from the year ended March 31, 2022.

In accordance with the transitional treatment stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, figures for the previous year have not been restated to reflect the new presentation method.

(Application of Accounting Standard for Fair Value Measurement)

The Group has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the year, and it will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc, in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There was no impact on the consolidated financial statements for the year ended March 31, 2022 from this application. In addition, the Group disclosed information on items such as the breakdown of the fair value of financial instruments by level of fair value in Notes 24 “Financial Instruments.”

(Changes in the depreciation method for property, plant and equipment and changes to useful lives)

From the year ended March 31, 2022, the Company has changed the depreciation method for calculating the depreciation of Shinkansen rolling stock within property, plant, and equipment from the declining-balance method to the straight-line method. The Group announced a revision of “JR-West Group Medium-Term Management Plan 2022” in October 2020, and in response to the changes in the market structure caused by changes in customer behavior in the wake of the spread of COVID-19.

From the year ended March 31, 2022, the Company has decided to proceed with the implementation of various initiatives.

With regard to Shinkansen, which is at the center of the above initiatives, the Company will optimize its train operating system best suited for passenger use, establish a rolling stock deployment system by introducing the new N700S train, and create an environment where Shinkansen rolling stock can be used in long-term and stable manner to enhance the convenience of Sanyo Shinkansen.

3. Accounting Changes (continued)

(Changes in the depreciation method for property, plant and equipment and changes to useful lives) (continued)

Based on these changes in the business environment and a review of management policies, the Company has determined that changing to the straight-line method of calculating depreciation would more appropriately reflect the consumption pattern of Shinkansen rolling stock, as it is not expected to suddenly decrease in value and will be used in over the long-term and in a stable manner.

Furthermore, as a result of examining the actual use of Shinkansen rolling stock, which was triggered by the assessing changes to the method for calculating depreciation, the useful life of rolling stock has been changed from the year ended March 31, 2022 based on a more realistic estimated period of economic viability.

Accordingly, operating loss and loss before income taxes decreased by ¥12,708 million ($105 million) for the year ended March 31, 2022, compared to the amounts calculated based on the previous depreciation method and useful life.

(Changes in accounting estimates of provision for loss on railway line liquidation)

With respect to the Sanko Line (running between Gotsu and Miyoshi Station), for which the railway business was discontinued on April 1, 2018, the Company has recognized a provision for loss on railway line liquidation in order to provide for expenditures corresponding to the dismantlement of bridges, electrical facilities and other items after the decommissioning of the line.

In response to the rapid environmental changes caused by severe disasters such as torrential rainfall in recent years, the Company carefully examined it recognizing that it would be necessary to drastically revise the construction plan required for the decommissioning of the line in the river basins.

As a result, the Company changed its estimate in the year ended March 31, 2022, as a construction plan review was completed, and recorded the increased construction cost of ¥8,638 million ($71 million) as a provision for loss on railway line liquidation, which was added to the balance of the provision for loss on railway line liquidation before the change. As a consequence of this change in estimate, loss before income taxes increased by ¥8,638 million ($71 million) for the year ended March 31, 2022,

4. Accounting Standards Issued but Not Yet Effective

(Implementation Guidance for Fair Value Measurement)

(1) Overview

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) was revised and issued on June 17, 2021. This amendment was scheduled for consideration at the time of its original release on July 4, 2019, as it was believed that a certain period of time would be required for discussions with relevant parties to consider the "calculation of the fair value of investment trusts." In addition, since certain considerations are necessary regarding information in the notes on the fair value of "Investments in partnerships, etc., which are recorded on the consolidated balance sheet at the net amount of an entity's equity interest," it was expected to take approximately one year after the release of the "Accounting Standard for Fair Value Measurement" to consider these issues.

(2) Scheduled date of adoption

The Group expects to adopt the implementation guidance from the beginning of the year ending March 31, 2023.

(3) Effect of the adoption of implementation guidance

The Group has not determined the effect of the adoption of the implementation guidance on its consolidated financial statements.

5. Additional Information

(Loss related to novel coronavirus)

The cost of countermeasures against COVID-19 and the fixed costs incurred during the temporary closure of the Group's commercial facilities were recorded as "Loss related to novel coronavirus" in the other income (expenses) section of the consolidated statement of operations.

6. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2022 and 2021 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:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Cash and deposits	¥319,843	¥210,291	$ 2,643
Time deposits with original maturities in excess of three months included in cash and deposits	(246)	(245)	(2)
Cash and cash equivalents	¥319,596	¥210,045	$ 2,641

7. 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, 2022 and 2021. 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, 2022 and 2021 are summarized as follows:

	Millions of yen					
	2022			2021		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥10,277	¥ 6,904	¥ 3,372	¥ 10,783	¥ 7,507	¥ 3,276
Debt securities:						
Government bonds	121	120	0	146	145	1
Subtotal	10,398	7,025	3,373	10,930	7,652	3,277
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	15,656	21,512	(5,855)	16,557	21,573	(5,016)
Subtotal	15,656	21,512	(5,855)	16,557	21,573	(5,016)
Total	¥26,055	¥28,537	¥ (2,482)	¥ 27,487	¥29,226	¥(1,738)

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

	Millions of U.S. dollars		
	2022		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 84	$ 57	$ 27
Debt securities:			
Government bonds	1	0	0
Subtotal	85	58	27
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	129	177	(48)
Subtotal	129	177	(48)
Total	$ 215	$ 235	$ (20)

Devaluation of investments in securities amounted to ¥4,293 million ($35 million) and ¥15,721 million for the years ended March 31, 2022 and 2021, respectively.

For marketable securities, if the market value at the end of the year has fallen by 50% or more of the acquisition cost, impairment loss is recognized, while if it falls 30% or more but less than 50%, impairment loss is recognized as necessary in light of the likelihood of recovery, and other factors. For unquoted securities, if the total value of net assets per share has declined by 50% or more of the acquisition costs due to deterioration in the financial position of the securities' issuers, impairment loss is recognized, in principle.

8. Inventories

Inventories at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2022	2021	2022
Merchandise and real estate for sale	¥ 21,926	¥ 26,801	$ 181
Work in progress	100,829	66,162	833
Rails, materials and supplies	23,127	25,935	191
	¥ 145,884	¥ 118,899	$ 1,205

9. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Investments in:			
Unconsolidated subsidiaries	¥ 17,913	¥ 21,949	$ 148
Affiliates	46,925	45,640	387
	¥ 64,838	¥ 67,589	$ 535

10. Property, Plant and Equipment

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 the other income (expenses) section of the 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.

For railway business, the accumulated contributions deducted from the acquisition costs of property, plant and equipment at March 31, 2022 and 2021 amounted to ¥768,547 million ($6,351 million) and ¥752,073 million, respectively.

For railway business, the compensation deducted from the acquisition costs of property, plant and equipment to replace the properties expropriated for the years ended March 31, 2022 and 2021 amounted to ¥1,159 million ($9million) and nil, respectively.

11. 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 ¥40,182 million ($332 million) and ¥38,584 million for the years ended March 31, 2022 and 2021, respectively, and gain on sales of these assets included in gain or sales of property, plant and equipment under other income amounted to ¥22,450 million ($185million) and ¥8,185 million for the years ended March 31, 2022 and 2021, respectively in the consolidated statements of operations. The rental income is recorded under operating revenues or other income, and the rental expenses are recorded under operating expenses or other expenses in the consolidated statements of operations.

The carrying value in the consolidated balance sheets and corresponding fair value of those properties as of March 31, 2022 and 2021 were as follows:

Millions of yen			
2022			
Carrying value			Fair value
As of April 1, 2021	Net change	As of March 31, 2022	As of March 31, 2022
¥ 367,388	¥ 18,956	¥ 386,344	¥ 814,635

Millions of yen			
2021			
Carrying value			Fair value
As of April 1, 2020	Net change	As of March 31, 2021	As of March 31, 2021
¥ 352,841	¥ 14,546	¥ 367,388	¥ 720,770

Millions of U.S. dollars			
2022			
Carrying value			Fair value
As of April 1, 2021	Net change	As of March 31, 2022	As of March 31, 2022
$ 3,036	$ 156	$ 3,192	$ 6,732

11. 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, 2022 and 2021 included increase mainly due to acquisitions of real estate properties in the amount of ¥35,637 million ($294 million) and ¥34,810 million and decrease mainly due to depreciation in the amount of ¥15,795 million ($130 million) and ¥16,195 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.

12. 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, 2022 and 2021 ranged from 0.002% to 0.36% and from 0.002% to 0.35%, respectively.

Long-term debt at March 31, 2022 and 2021 is summarized as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.001% to 2.49%, due from 2022 through 2072	¥ 974,990	¥ 839,988	$ 8,057
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.29% to 0.49%, due in installments from 2022 through 2040	25,000	25,000	206
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.07% to 2.15%, due in installments from 2022 through 2057	613,133	583,486	5,067
Finance lease obligations, at rates ranging from 0.00% to 7.13%, due in installments from 2022 through 2051	31,276	32,329	258
Other	11,875	9,875	98
	1,656,275	1,490,679	13,688
Less current portion	(98,420)	(63,732)	(813)
	¥ 1,557,855	¥ 1,426,947	$ 12,874

The aggregate annual maturities of long-term debt subsequent to March 31, 2022 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2023	¥ 98,420	$ 813
2024	141,414	1,168
2025	138,514	1,144
2026	136,759	1,130
2027	128,460	1,061
2028 and thereafter	1,012,716	8,369
	¥ 1,656,285	$ 13,688

12. 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, 2022 and 2021 was as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Lines of credit	¥ 430,000	¥ 430,000	$ 3,553
Credit utilized	–	–	–
Available credit	¥ 430,000	¥ 430,000	$ 3,553

13. Pledged Assets

Assets pledged at March 31, 2022 as collateral for indebtedness are summarized as follows:

	Millions of yen	*Millions of U.S. dollars*
	2022	
Bank deposits included in cash and deposits	¥ 246	$ 2
Short-term investments	79	0
Investments in other securities	327	2
Land	128	1
Buildings and structures, net	168	1
Other assets	654	5
	¥ 1,604	$ 13

The indebtedness secured by such collateral at March 31, 2022 was as follows:

	Millions of yen	*Millions of U.S. dollars*
	2022	
Notes and accounts payable	¥ 18	$ 0

14. Long-Term Payables

Long-term payables at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2022 through 2052	¥ 99,848	¥ 100,943	$ 825
Other	–	215	–
	99,848	101,158	825
Less current portion	(1,167)	(1,309)	(9)
	¥ 98,681	¥ 99,848	$ 815

The aggregate annual maturities of long-term payables subsequent to March 31, 2022 are summarized as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2023	¥ 1,167	$ 9
2024	1,245	10
2025	1,327	10
2026	1,416	11
2027	1,510	12
2028 and thereafter	93,181	770
	¥ 99,848	$ 825

15. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 30.62% for the years ended March 31, 2022 and 2021.

Reconciliations of the statutory and effective tax rates for the years ended March 31, 2022 and 2021are omitted because the Group recorded loss before income taxes.

The significant components of deferred tax assets and liabilities of the Group at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Deferred tax assets:			
Provision for employees' bonuses	¥ 7,769	¥ 7,407	$ 64
Accrued enterprise taxes included in income taxes payable	1,048	715	8
Liability for retirement benefits	73,732	78,213	609
Unrealized gain on property, plant and equipment	15,400	15,885	127
Tax loss carryforwards	149,623	110,962	1,236
Other	64,128	53,760	529
Total gross deferred tax assets	311,703	266,944	2,576
Valuation allowance related to tax loss carryforwards	(67,994)	(35,652)	(561)
Valuation allowance related to total future deductible temporary differences	(27,420)	(21,252)	(226)
Total valuation allowance	(95,415)	(56,904)	(788)
Total deferred tax assets	216,288	210,039	1,787
Deferred tax liabilities:			
Unrealized holding gain on securities	(742)	(654)	(6)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,829)	(12,077)	(97)
Gain on valuation of assets of consolidated subsidiaries	(1,207)	(1,155)	(9)
Other	(5,689)	(6,228)	(47)
Total deferred tax liabilities	(19,469)	(20,116)	(160)
Deferred tax assets, net	¥196,818	¥189,923	$ 1,626

The total valuation allowance increased by ¥38,510 million ($318 million) during the year ended March 31, 2022. he main reason for the increase is that the Group determined certain deductible temporary differences and tax loss carryforwards to be uncollectible as a result of the assessment of recoverability of deferred tax assets.

15. Income Taxes (continued)

A breakdown of tax loss carryforwards and valuation allowance by expiry date as of March 31, 2022 and 2021is as follows:

	Millions of yen		
	2022		
Year ending March 31,	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2023	¥ 559	¥ (559)	¥ –
2024	3,852	(3,852)	–
2025	197	(197)	–
2026	688	(545)	142
2027	360	(360)	–
2028 and thereafter	143,964	(62,478)	81,486
	¥ 149,623	¥ (67,994)	¥ 81,629

	Millions of U.S. dollars		
	2022		
Year ending March 31,	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2023	$ 4	$ (4)	$ –
2024	31	(31)	–
2025	1	(1)	–
2026	5	(4)	1
2027	2	(2)	–
2028 and thereafter	1,189	(516)	673
	$ 1,236	$ (561)	$ 674

Deferred tax assets on tax loss carryforwards in the above were measured applying the statutory tax rate and determined to be recoverable based on estimated future taxable income.

16. Leases

Future minimum lease payments subsequent to March 31, 2022 for noncancelable operating leases were as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2023	¥ 2,696	$ 22
2024 and thereafter	38,306	316
	¥41,002	$ 338

Future minimum lease receipts subsequent to March 31, 2022 for noncancelable operating leases were as follows:

Year ending March 31,	*Millions of yen*	*Millions of U.S. dollars*
2023	¥ 865	$ 7
2024 and thereafter	17,140	141
	¥18,005	$ 148

17. 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, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Retirement benefit obligations at beginning of year	¥266,356	¥279,144	$ 2,201
Service cost	13,347	12,270	110
Interest cost	1,939	2,059	16
Actuarial loss	167	8,147	1
Retirement benefits paid	(31,844)	(36,347)	(263)
Prior service cost	–	721	–
Reclassification of retirement benefit obligation resulting from change from the Simplified Method	27	255	0
Increase of retirement benefit obligation resulting from change from the Simplified Method	248	59	2
Other	7	43	0
Retirement benefit obligations at end of year	¥250,250	¥266,356	$ 2,068

17. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied during the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Plan assets at beginning of year	¥ 21,332	¥ 19,012	$ 176
Expected return on plan assets	348	273	2
Actuarial gain	58	1,361	0
Contributions paid	1,570	1,513	12
Retirement benefits paid	(577)	(828)	(4)
Plan assets at end of year	¥ 22,732	¥ 21,332	$ 187

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Liability for retirement benefits at beginning of year	¥ 7,210	¥ 7,276	$ 59
Retirement benefit expenses	873	993	7
Retirement benefits paid	(545)	(713)	(4)
Contributions paid	(85)	(91)	(0)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	(27)	(255)	(0)
Liability for retirement benefits at end of year	¥ 7,425	¥ 7,210	$ 61

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2022 and 2021 for the Company's and its consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method was applied:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Funded retirement benefit obligations	¥ 27,027	¥ 26,304	$ 223
Plan assets at fair value	(23,513)	(22,108)	(194)
	3,513	4,196	29
Unfunded retirement benefit obligations	231,429	248,037	1,912
Net liability for retirement benefits in the consolidated balance sheet	¥ 234,943	¥ 252,234	$ 1,941
Liability for retirement benefits	¥ 238,077	¥ 254,830	$ 1,967
Asset for retirement benefits	(3,134)	(2,595)	(25)
Net liability for retirement benefits in the consolidated balance sheet	¥ 234,943	¥ 252,234	$ 1,941

17. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Service cost	¥13,347	¥12,270	$ 110
Interest cost	1,939	2,059	16
Expected return on plan assets	(348)	(273)	(2)
Amortization of unrecognized actuarial gain	(1,365)	(1,300)	(11)
Amortization of prior service cost	37	31	0
Increase of retirement benefit obligation resulting from change from the Simplified Method	248	59	2
Retirement benefit expenses calculated by the Simplified Method	873	993	7
Other	(9)	33	(0)
Retirement benefit expenses under defined benefit pension plans	¥14,723	¥13,875	$ 121

The components of retirement benefit liability adjustments included in other comprehensive (loss) income (before tax effects) for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Prior service cost	¥ 37	¥ (690)	$ 0
Actuarial gain	(1,474)	(8,086)	(12)
	¥(1,436)	¥(8,776)	$ (11)

The components of retirement benefit liability adjustments included in accumulated other comprehensive (loss) income (before tax effects) as of March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Unrecognized prior service cost	¥ (651)	¥(689)	$ (5)
Unrecognized actuarial gain	(763)	710	(6)
	¥(1,415)	¥ 20	$ (11)

17. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2022 and 2021 were as follows:

	2022	2021
Debt securities	38%	46%
Equity securities	22	26
Other	40	28
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, 2022 and 2021 were principally as follows:

	2022	2021
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	2.0%	2.0%

Total contributions required to be paid by certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2022 and 2021 amounted to ¥741 million ($6 million) and ¥564 million, respectively.

18. Contingent Liabilities

At March 31, 2022, the Company and its certain consolidated subsidiaries had a commitment to provide guarantees of loans and were 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 ¥74,349 million ($614 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.

19. Receivables from Contracts with Customers, Contract Assets, and Contract Liabilities

The balances of receivables from contracts with customers, contract assets, and contract liabilities as of March 31, 2022 and 2021 were as follows:

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Receivables from contracts with customers:			
Notes and accounts receivable	¥ 96,330	¥ 64,639	$ 796
Others included in prepaid expenses and other current assets	208	195	1
Total	¥ 96,539	¥ 64,835	$ 797
Contract assets:			
Notes and accounts receivable	¥ 16,790	¥ 18,361	$ 138
Others included in prepaid expenses and other current assets	42	27	0
Total	¥ 16,832	¥ 18,388	$ 139
Contract liabilities:			
Deposits and advances received	¥ 40,932	¥ 44,369	$ 338
Prepaid railway fares received	30,404	30,202	251
Others included in other current liabilities	617	846	5
Total	¥ 71,954	¥ 75,418	$ 594

20. 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 ¥181,136 million ($1,496 million) and ¥55,000 million, and legal reserve included in retained earnings amounted to ¥11,327 million ($93 million) and ¥11,327 million at March 31, 2022 and 2021, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2022 and 2021 are summarized as follows:

	Number of shares			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	191,334,500	52,667,100	–	244,001,600
Treasury stock	129,629	106	16	129,719

	Number of shares			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	191,334,500	–	–	191,334,500
Treasury stock	129,792	–	163	129,629

The increase in common stock for the year ended March 31, 2022 was due to the capital increase with issuance of new shares.

The increase in treasury stock for the year ended March 31, 2022 was due to the purchase of shares less than one trading unit.

The decrease in treasury stock for the year ended March 31, 2022 was due to the changes in equity in affiliate accounted for by the equity method.

The decrease in treasury stock for the year ended March 31, 2021 was due to the sale of shares less than one trading unit.

21. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥4,979 million ($41 million) and ¥7,584 million for the years ended March 31, 2022 and 2021, respectively.

22. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2022 and 2021.

	Millions of yen		*Millions of U.S. dollars*
	2022	2021	2022
Net unrealized holding loss on securities:			
Amount arising during the year	¥ (441)	¥ (69)	$ (3)
Reclassification adjustments for gain included in consolidated statement of operations	(282)	(486)	(2)
Before tax effect	(723)	(556)	(5)
Tax effect	239	193	1
Total	(484)	(362)	(4)
Net unrealized deferred loss on hedging instruments:			
Amount arising during the year	–	(53)	–
Before tax effect	–	(53)	–
Tax effect	–	16	–
Total	–	(37)	–
Retirement benefit liability adjustments:			
Amount arising during the year	(108)	(7,508)	(0)
Reclassification adjustments for loss included in consolidated statement of operations	(1,327)	(1,268)	(10)
Before tax effect	(1,436)	(8,776)	(11)
Tax effect	460	2,602	3
Total	(975)	(6,174)	(8)
Other comprehensive income (loss) of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	12	104	0
Reclassification adjustments for loss included in consolidated statement of operations	(14)	(65)	(0)
Total	(1)	38	(0)
Total other comprehensive loss	¥ (1,462)	¥ (6,535)	$ (12)

23. Amounts per Share

Amounts per share at March 31, 2022 and 2021 and for the years then ended were as follows:

	Yen		*U.S. dollars*
	2022	2021	2022
Net assets	¥ 3,973.15	¥ 4,461.46	$ 32.83
Loss attributable to owners of parent	(516.06)	(1,219.46)	(4.26)
Cash dividends	100.00	100.00	0.82

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

Loss attributable to owners of parent per share has been computed based on the loss attributable 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, 2022 and 2021 since the Group recorded loss attributable to owners of parent for these yeas and the Company had no potentially dilutive stock at March 31, 2022 and 2021.

The weighted-average number of shares of common stock used to compute loss attributable to owners of parent per share for the year ended March 31, 2022 and 2021 were 219,350 thousand and 191,204 thousand, respectively.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

24. 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 funded 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 forty nine years from March 31, 2022. 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 twenty nine years from March 31, 2022.

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 (25).

24. Financial Instruments (continued)

Overview (continued)

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Company for managing credit risk arising from trade receivables, the Company monitors due dates and outstanding balances by individual customer. The Company is also making efforts to identify at an early stage and mitigate risks arising from bad debts from customers who are having financial difficulties. The consolidated subsidiaries also monitor the risk as same manners as the Company in accordance with their internal policies.

The Group enters into derivative transactions only with financial institutions which have a sound credit profile to mitigate counterparty risk. At the balance sheet date, the carrying values of the financial assets in the consolidated balance sheets represent the maximum credit risk exposures of the Group.

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

The Company utilizes currency swap and interest-rate swap contracts to reduce the risk arising from the fluctuation in exchange rates and interest rates on financial liabilities. Finance division of the Company executes and monitors them in accordance with internal policy.

For trade payables denominated in foreign currencies, certain consolidated subsidiaries identify the foreign currency exchange risk by currency and month and enter into principally forward foreign exchange contracts to hedge such risk. For trade payables denominated in foreign currencies arising from forecasted transactions to occur within six months regarding organized foreign tours, forward foreign exchange contracts are principally arranged considering the actual results in the past and the circumstances of the tour reservations. The basic policy is approved at a meeting once a half year in accordance with internal policy. In accordance with the approval, finance division enters into such transactions and reconciles outstanding balances with those of the counterparties. The control division of the Company monitors these risks based on the application from each operating division of each branch of certain consolidated subsidiaries. In addition, these risks are also periodically monitored by the internal audit division of the Company.

24. 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

Since a number of variable factors are reflected in estimating the fair value, different inputs could result in different fair values.

24. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2022 and 2021 and estimated fair value are shown in the following table.

	Millions of yen		
	2022		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	¥ 1,530	¥ 1,530	¥ –
Trade	162,396	162,396	–
Short-term investments and investments in securities (*2) (*3) (*4):			
Investments in affiliates	4,203	3,869	(333)
Other securities	26,055	26,055	–
Total	¥ 194,186	¥ 193,852	¥ (333)
Liabilities:			
Short-term loans	¥ (14,229)	¥ (14,229)	¥ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(2,043)	(2,043)	–
Trade	(160,570)	(160,570)	–
Income taxes payable	(7,438)	(7,438)	–
Accrued expenses	(2,563)	(2,563)	–
Deposits (component of deposits and advances received)	(125,671)	(125,671)	–
Long-term debt (including current portion)	(1,624,999)	(1,644,564)	(19,565)
Long-term payables (including current portion)	(99,848)	(199,916)	(100,067)
Total	¥ (2,037,365)	¥ (2,156,998)	¥ (119,632)

24. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	Millions of yen		
	2021		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	¥ 1,149	¥ 1,149	¥ –
Trade	122,482	122,482	–
Short-term investments and investments in securities (*3):			
Investments in affiliates	3,858	4,237	379
Other securities	27,487	27,487	–
Total	¥ 154,978	¥ 155,357	¥ 379
Liabilities:			
Short-term loans	¥ (19,474)	¥ (19,474)	¥ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(3,132)	(3,132)	–
Trade	(206,477)	(206,477)	–
Income taxes payable	(13,691)	(13,691)	–
Accrued expenses	(4,985)	(4,985)	–
Deposits (component of deposits and advances received)	(127,443)	(127,443)	–
Long-term debt (including current portion)	(1,458,350)	(1,514,560)	(56,209)
Long-term payables (including current portion)	(101,158)	(211,228)	(110,070)
Total	¥(1,934,714)	¥ 2,100,994	¥(166,279)

24. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	Millions of U.S. dollars		
	2022		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	$ 12	$ 12	$ –
Trade	1,342	1,342	–
Short-term investments and investments in securities (*2) (*3) (*4):			
Investments in affiliates	34	31	(2)
Other securities	215	215	–
Total	$ 1,604	$ 1,602	$ (2)
Liabilities:			
Short-term loans	$ (117)	$ (117)	$ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(16)	(16)	–
Trade	(1,327)	(1,327)	–
Income taxes payable	(61)	(61)	–
Accrued expenses	(21)	(21)	–
Deposits (component of deposits and advances received)	(1,038)	(1,038)	–
Long-term debt (including current portion)	(13,429)	(13,591)	(161)
Long-term payables (including current portion)	(825)	(1,652)	(827)
Total	$ (16,837)	$ (17,826)	$ (988)

24. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Notes:

(*1) Cash and deposits are omitted in the above tables of "Estimated Fair Value of Financial Instruments" as fair value of cash is the same as the carrying value, and deposits are settled within a short term and their fair value approximates the carrying value.

(*2) Stocks without a quoted market price as of March 31, 2022 are summarized as follows:

	Millions of yen	*Millions of U.S. dollars*
	2022	2022
Investments in securities		
Unlisted stocks	¥ 63,838	$ 527

The above financial instruments are not included as amounts presented in the above table of "Estimated Fair Value of Financial Instruments" in this note.

(*3) Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2021 are summarized as follows:

	Millions of yen
	2021
Investments in securities	
Unlisted stocks	¥ 68,086
Other	3,697

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.

(*4) Investments in partnership and other similar entities are omitted in the above table of "Estimated Fair Value of Financial Instruments." Carrying value of such investments amounted to ¥3,502 million ($28 million) as of March 31, 2022.

24. Financial Instruments (continued)

Redemption Schedules of Financial Instruments

The redemption schedule for cash and deposits, notes and accounts receivable, short-term investments and investments in securities with maturities at March 31, 2022 is as follows:

	Millions of yen		
	2022		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 310,930	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,530	–	–
Trade	162,390	6	0
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	79	41	–
Total	¥ 474,930	¥ 48	¥ 0

	Millions of U.S. dollars		
	2022		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	$ 2,569	$ –	$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	12	–	–
Trade	1,342	0	0
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	0	0	–
Total	$ 3,925	$ 0	$ 0

The redemption schedules for long-term debt and long-term payables are disclosed in Note 12 and Note 14.

24. Financial Instruments (continued)

Breakdown of Fair Value of Financial Instruments by Level

Financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level1: Fair value calculated based on adjusted or unadjusted quoted prices in active market for the same asset or liability
Level2: Fair value calculated based on directly or indirectly observable inputs other than level 1 inputs
Level3: Fair value determined based on significant unobservable inputs

If multiple inputs with a significant impact are used for the fair value measurement of a financial instrument, the financial instrument is classified to the lowest priority level of fair value measurement in which each input belongs.

Financial assets and liabilities measured at fair value by level as of March 31, 2022 are as follows:

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Short-term investments and investments in securities:				
Other securities	¥ 26,055	¥ –	¥ –	¥ 26,055

	Millions of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Short-term investments and investments in securities:				
Other securities	$ 215	$ –	$ –	$ 215

24. Financial Instruments (continued)

Breakdown of Fair Value of Financial Instruments by Level (continued)

Financial assets and liabilities other than those measured at fair value by level as of March 31, 2022 are as follows:

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	¥ –	¥ 1,530	¥ –	¥ 1,530
Trade	–	162,396	–	–
Short-term investments and investments in securities:				
Investments in affiliates	3,869	–	–	3,869
Total	¥ 3,869	¥ 163,927	¥ –	¥ 167,797
Liabilities:				
Short-term loans	¥ –	¥ 14,229	¥ –	¥ 14,229
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	–	2,043	–	2,043
Trade	–	160,570	–	160,570
Income taxes payable	–	7,438	–	7,438
Accrued expenses	–	2,563	–	2,563
Deposits (component of deposits and advances received)	–	125,671	–	125,671
Long-term debt (including current portion)	981,830	662,734	–	1,957,081
Long-term payables (including current portion)	–	199,916	–	199,916
Total	¥ 981,830	¥ 1,175,168	¥ –	¥ 2,156,998

24. Financial Instruments (continued)

Breakdown of Fair Value of Financial Instruments by Level (continued)

	Millions of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	$ –	$ 12	$ –	$ 12
Trade	–	1,342	–	1,342
Short-term investments and investments in securities:				
Investments in affiliates	31	–	–	31
Total assets	$ 31	$ 1,354	$ –	$ 1,386
Liabilities:				
Short-term loans	$ –	$ 117	$ –	$ 117
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	–	16	–	16
Trade	–	1,327	–	1,327
Income taxes payable	–	61	–	61
Accrued expenses	–	21	–	21
Deposits (component of deposits and advances received)	–	1,038	–	1,038
Long-term debt (including current portion)	8,114	5,477	–	16,174
Long-term payables (including current portion)	–	1,652	–	1,652
Total liabilities	$ 8,114	$ 9,712	$ –	$ 17,826

The above breakdown of "long-term debt (including current portion)" includes bond (including current portion) in the amount of ¥981,830 million ($8,114 million) at Level 1 and long-term loans (including current portion) in the amount of ¥662,734 million ($5,477 million) at Level 2.

24. Financial Instruments (continued)

Breakdown of Fair Value of Financial Instruments by Level

Description of valuation techniques used and valuation inputs related to the calculation of fair value is as follows:

Notes and accounts receivable

Since these items are settled in a short term and their fair value approximates carrying value, their fair value is determined with carrying value, and is classified as Level 2.

Short-term investments and investments in securities

Listed securities are valued based on quoted prices. Since listed securities are traded on active markets, the fair value of listed securities is classified as Level 1.

Short-term loans, notes and accounts payable, income taxes payable, accrued expenses and deposits

Since these items are settled in a short term and their fair value approximates carrying value, their fair value is determined with carrying value, and is classified as Level 2.

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

The fair value of bonds issued by the Company is determined based on the quoted market price. Since bonds issued by the Company are traded on active markets, the fair value of listed securities is classified as Level 1.

Long-term loans (component of long-term debt, including current portion)

The fair value of long-term loans is calculated using the present value method based on the total amount of principal and interest rate that takes into account the remaining term of the loans and credit risk, and classified as Level 2.

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.

24. Financial Instruments (continued)

Breakdown of Fair Value of Financial Instruments by Level (continued)

Long-term payables (including current portion)

Long-term payables are monetary liabilities 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, and classified as Level 2.

25. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2022 and 2021.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2022 and 2021 were as follows:

Currency-related transactions

There were no applicable derivative instruments outstanding at March 31, 2022.

			Millions of yen		
			2021		
Method of hedge accounting	Description of transaction	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
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	¥ –	(*)

(*) 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.

25. Derivative Transactions (continued)

Interest-rate related transactions

			Millions of yen		
			2022		
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	¥ 48,100	¥ 48,100	(*)

			Millions of yen		
			2021		
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	¥ 43,100	¥ 40,000	(*)

			Millions of U.S. dollars		
			2022		
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	$ 397	$ 397	(*)

(*) 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.

26. Revenue Recognition

Information on disaggregation of revenue from contracts with customers for the year ended March 31, 2022 is as follows:

	Millions of yen						
	2022						
	Transportation						
	Passenger transportation						
	Commuter passes	Non-Commuter passes	Other	Sales of goods and food services	Real estate	Other	Total
Revenue from contracts with customers:	¥ 130,070	¥ 364,457	¥ 43,700	¥ 118,923	¥ 67,234	¥ 206,618	¥ 931,004
Revenue from other sources	–	–	5,897	5,329	83,954	4,917	100,099
Operating revenues from external customers	¥ 130,070	¥ 364,457	¥ 49,597	¥ 124,253	¥ 151,188	¥ 211,535	¥1,031,103

	Millions of U.S. dollars						
	2022						
	Transportation						
	Passenger transportation						
	Commuter passes	Non-Commuter passes	Other	Sales of goods and food services	Real estate	Other	total
Revenue from contracts with customers	$ 1,074	$ 3,012	$ 361	$ 982	$ 555	$ 1,707	$ 7,694
Revenue from other sources	–	–	48	44	693	40	827
Operating revenues from external customers	$ 1,074	$ 3,012	$ 409	$1,026	$1,249	$ 1,748	$ 8,521

"Other" involves business segments not included in the reportable segments, such as "Hotel business," "Travel agency business," and "Construction."

The accounting standard for revenue recognition is not applied to "Revenue from other sources," and includes rental and leasing income of real estate.

26. Revenue Recognition (continued)

Foundational information for understanding revenue from contracts with customers is described in Note 1 (23).

Information on the relationship between satisfaction of performance obligations based on contracts with customers and cash flows arising from such contracts, and the amounts and timing of revenue expected to be recognized in the following year from contracts with customers existing at the end of the year ended March 31, 2022 is as follows:

Balances of contract assets and contract liabilities

	Millions of Yen		*Millions of U.S. dollars*
	March 31, 2022	April 1, 2021	2022
Accounts receivable arising from contracts with customers	¥ 96,539	¥ 64,835	$ 797
Contract assets	16,832	18,388	139
Contract liabilities	71,954	75,418	594

Contract assets are mainly related to the rights of consolidated subsidiaries to the consideration for the delivery of buildings which has been completed but not yet been invoiced at the year end. Contractual assets are transferred to receivables when the rights of consolidated subsidiaries to the consideration become unconditional. The consideration for the construction contract will be invoiced and received based on the construction contract with the customer.

Contract liabilities are mainly related to the consideration received before fulfillment of performance obligations through sales of train tickets in the transportation business, sales of inventory assets in the real estate and construction business, and sales of planned travel products in the travel business. Contract liabilities are reversed upon revenue recognition.

Of the revenue recognized during the year ended March 31, 2022, the amount included in the balance of contract liabilities at the beginning of the year was $74,129 million ($612 million). The main reason for the decrease of ¥1,556 million ($12 million) in contract assets during the year was increases and decreases in consideration for the delivery of buildings whose construction contracts are completed but not yet been invoiced at the year end. In addition, the main reason for the decrease of ¥3,463 million ($28 million) in contract liabilities during the year was increases and decreases in consideration received before fulfillment of performance obligations in the travel business.

26. Revenue Recognition (continued)

Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations and the period of expected revenue to be recognized are as follows:

	Millions of Yen		*Millions of U.S. dollars*
	March 31, 2022	April 1, 2021	2022
Within one year	¥ 71,850	¥ 75,128	$ 593
More than one year	103	289	0
Total	¥ 71,954	¥ 75,418	$ 594

27. 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 Group is 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.

"Construction," which was separately presented as a reportable segment for the year ended March 31, 2021, no longer met quantitative thresholds and thus was not presented separately as a reportable segment for the year ended March 31, 2022.

Segment information of the year ended March 31, 2021 has been restated and disclosed based on the current segment classification after the change.

Accounting policies used in each reportable segment are substantially the same as those described in Note 1. Intersegment transactions are those conducted among the Company and its consolidated subsidiaries and are mainly recorded at the market prices.

27. Segment Information (continued)

Adaption of Accounting Standard for Revenue Recognition

As disclosed in Note 3, since the Group has applied “Accounting Standard for Revenue Recognition” and changed the accounting method for revenue recognition from beginning of the year ended March 31, 2022, the method of measuring profit or loss of business segments has been also changed in the same manner.

As a result of these changes, net sales to external customers for the previous year decreased by ¥7,154 million in the transportation business, decreased by ¥33,507 million in the sales of goods and food services business, decreased by ¥4,345 million in the real estate business, and increased by ¥66,881 million in the other business compared to those calculated by the previous methods.

Changes to the depreciation method for property, plant and equipment and revisions to useful lives

As described in Note 3, starting from the year ended March 31, 2022, the Company has revised the depreciation method for property, plant and equipment and revised the useful life for an item of property, plant and equipment.

As a result, segment loss for the year ended March 31, 2022 in the transportation business decreased by ¥12,708 million ($105 million) compared to the amount calculated by the previous depreciation method and useful life.

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27. Segment Information (continued)

Reportable segment information for the years ended March 31, 2022 and 2021 is outlined as follows:

	Millions of yen						
	2022						
	Reportable segments						
	Transportation	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	¥ 544,126	¥ 124,253	¥ 151,188	¥ 211,535	¥1,031,103	¥ –	¥ 1,031,103
Intersegment operating revenues or transfers	18,126	4,900	19,852	233,781	276,661	(276,661)	–
Total	¥ 562,253	¥ 129,153	¥ 171,041	¥ 445,316	¥1,307,764	¥ (276,661)	¥ 1,031,103
Segment (loss) income	¥ (144,306)	¥ (8,600)	¥ 30,028	¥ 2,977	¥ (119,900)	¥ 809	¥ (119,091)
Segment assets	¥ 2,174,262	¥ 103,128	¥ 776,482	¥ 538,499	¥3,592,372	¥ 110,048	¥ 3,702,421
Other items:							
Depreciation and amortization	¥ 127,880	¥ 5,868	¥ 24,453	¥ 9,422	¥ 167,625	¥ (6,756)	¥ 160,868
Investment in affiliates accounted for by the equity method	30,872	–	–	15,296	46,168	–	46,168
Increase in property, plant and equipment and intangible assets	169,772	2,899	60,540	5,260	238,473	–	238,473

27. Segment Information (continued)

	Millions of yen						
	2021						
	Reportable segments						
	Transportation	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	¥ 469,736	¥ 108,721	¥ 141,386	¥ 200,202	¥ 920,046	¥ –	¥ 920,046
Intersegment operating revenues or transfers	19,447	5,783	19,877	263,508	308,616	(308,616)	–
Total	¥ 489,183	¥ 114,505	¥ 161,264	¥463,710	¥1,228,663	¥ (308,616)	¥ 920,046
Segment (loss) income	¥ (251,521)	¥ (15,045)	¥ 29,258	¥ (5,763)	¥(243,072)	¥ (2,434)	¥ (245,507)
Segment assets	¥ 2,162,450	¥ 109,795	¥ 734,809	¥ 479,923	¥3,486,977	¥ (9,595)	¥ 3,477,382
Other items:							
Depreciation and amortization	¥ 141,524	¥ 5,487	¥ 24,191	¥ 8,879	¥ 180,081	¥ (6,613)	¥ 173,468
Investment in affiliates accounted for by the equity method	30,425	–	–	14,663	45,089	–	45,089
Increase in property, plant and equipment and intangible assets	178,640	6,079	46,283	12,156	243,160	–	243,160

27. Segment Information (continued)

	Millions of U.S. dollars						
	2022						
	Reportable segments						
	Transportation	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	$ 4,496	$ 1,026	$ 1,249	$ 1,748	$ 8,521	$ –	$ 8,521
Intersegment operating revenues or transfers	149	40	164	1,932	2,286	(2,286)	–
Total	$ 4,646	$ 1,067	$ 1,413	$ 3,680	$ 10,807	$ (2,286)	$ 8,521
Segment (loss) income	$ (1,192)	$ (71)	$ 248	$ 24	$ (990)	$ 6	$ (984)
Segment assets	$ 17,969	$ 852	$ 6,417	$ 4,450	$ 29,689	$ 909	$ 30,598
Other items:							
Depreciation and amortization	$ 1,056	$ 48	$ 202	$ 77	$ 1,385	$ (55)	$ 1,329
Investment in affiliates accounted for by the equity method	255	–	–	126	381	–	381
Increase in property, plant and equipment and intangible assets	1,403	23	500	43	1,970	–	1,970

27. Segment Information (continued)

"Other" involves business segments not included in the reportable segments, such as "Hotel business," "Travel agency business," and "Construction."

The adjustments of segment income (loss) in the amounts of ¥809 million ($6 million) and (¥2,434 million) for the years ended March 31, 2022 and 2021, respectively, were eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥110,048 million ($909 million) and (¥9,595 million), included corporate assets not allocated to reportable segments of ¥495,646 million ($4,096 million) and ¥382,618 million, and eliminations of intersegment receivables or payables of (¥385,597 million ($3,186 million)) and (¥392,213 million) at March 31, 2022 and 2021, respectively.

The adjustments of depreciation and amortization in the amounts of ¥6,756 million ($55 million) and ¥6,613 million for the years ended March 31, 2022 and 2021, respectively, were eliminations of intersegment transactions.

Segment income (loss) was reconciled to operating loss in the consolidated statements of operations.

Information on each product and service was omitted for the years ended March 31, 2022 and 2021 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, 2022 and 2021 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, 2022 and 2021 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, 2022 and 2021 was omitted because the amounts were immaterial.

28. 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, 2022, was approved at a meeting of the shareholders of the Company held on June 23, 2022:

	Millions of yen	*Millions of U.S. dollars*
Cash dividends (¥50.0 = U.S.$0.41 per share)	¥ 12,200	$ 100

(2) Special tax measures for increasing the limit of maximum deduction of tax loss carryforwards

The Company received approval on special tax measures from the Minister of Land, Infrastructure, Transport and Tourism as a part of a business adaptation plan (growth and development business adaptation plan) under the "Act on Strengthening Industrial Competitiveness" effective April 1, 2022.

As a result, the Company has been permitted to apply special tax measures to increase the maximum deduction of loss carryforwards from the current 50% to a maximum of 100% within the scope of investments made in accordance with the business adaptation plan for up to five years.

In applying this special tax measures, the Company is able to record deferred tax assets for tax loss carryforwards, which is expected to improve profit attributable to owners of parent in the year ending March 31, 2023.