

**Non-Consolidated Financial Statements**

**West Japan Railway Company**

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

West Japan Railway Company  
Non-Consolidated Financial Statements

Year ended March 31, 2022

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**Non-Consolidated Financial Statements**

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# Independent Auditor's Report

The Board of Directors  
West Japan Railway Company

## Opinion

We have audited the accompanying non-consolidated financial statements of West Japan Railway Company (the "Company"), which comprise the non-consolidated balance sheet as at March 31, 2022, and the non-consolidated statements of operations, changes in net assets for the year then ended, and notes to the non-consolidated financial statements.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at March 31, 2022, and its non-consolidated financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

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

## Emphasis of Matter

As described in Note 3 "Changes in Accounting Policies" in notes to the non-consolidated financial statements, the Company 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 non-consolidated financial statements of the current period. These matters were addressed in the context of the audit of the non-consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue Recognition in Railway Business (Accuracy of Aggregation)

A description of this key audit matter is omitted as it is identical to the key audit matter (Revenue Recognition in Railway Business (Accuracy of Aggregation)) paragraph included in the auditor's report in the consolidated financial statements.

### Recoverability of Deferred Tax Assets of West Japan Railway Company

A description of this key audit matter is omitted as it is identical to the key audit matter (Recoverability of Deferred Tax Assets of West Japan Railway Company) paragraph included in the auditor's report in the consolidated financial statements.

## **Other Information**

The other information comprises the information included in the disclosure document that contains audited non-consolidated financial statements but does not include the non-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 Non-Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Supervisory Committee is responsible for overseeing the Company's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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

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

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

## **Convenience Translation**

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 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 non-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

## Non-Consolidated Balance Sheet

As of March 31, 2022

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2022	2021	2022
<b>Assets</b>			
Current assets:			
Cash and deposits	¥ 303,908	¥ 197,146	\$ 2,511
Accounts receivable	78,208	67,894	646
Allowance for doubtful accounts	(306)	(284)	(2)
Consumption taxes receivable	—	8,055	—
Inventories	20,197	22,479	166
Prepaid expenses and other current assets	81,866	88,659	676
Total current assets	483,873	383,951	3,998
Investments and advances:			
Subsidiaries and affiliates (Note 4)	452,063	403,422	3,736
Other securities	24,425	26,359	201
Total investments	476,488	429,781	3,937
Property, plant and equipment, at cost (Note 5):			
Railway	5,059,901	4,993,389	41,817
Other operations	228,257	230,916	1,886
Construction in progress	120,530	94,469	996
	5,408,688	5,318,775	44,699
Less accumulated depreciation	(3,401,000)	(3,324,136)	(28,107)
Property, plant and equipment, net	2,007,687	1,994,638	16,592
Deferred income taxes (Notes 2 and 6)	170,226	164,085	1,406
Other assets	51,115	53,501	422
Total other assets	221,346	217,587	1,829
Deferred assets			
Share issuance costs	1,140	—	9
Total deferred assets	1,140	—	9
Total assets	¥ 3,190,533	¥ 3,025,958	\$ 26,368

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2022	2021	2022
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term loans (Note 4)	¥ 210,878	¥ 236,056	\$ 1,742
Current portion of long-term debt	96,520	61,500	797
Current portion of long-term payables	1,167	1,309	9
Accounts payable	137,783	192,383	1,138
Prepaid railway fares received	30,347	30,130	250
Deposits and advances received	99,257	111,623	820
Accrued expenses	16,816	17,981	138
Income taxes payable (Note 6)	291	7,354	2
Provision for employees' bonuses	12,424	12,583	102
Provision for loss on disaster	1,205	2,230	9
Other current liabilities	5,652	1,746	46
Total current liabilities	612,346	674,900	5,060
Long-term liabilities:			
Long-term debt	1,528,345	1,396,264	12,630
Long-term payables	98,681	99,848	815
Accrued retirement benefits	206,065	225,189	1,703
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
Asset retirement obligations	3,407	4,987	28
Other long-term liabilities	5,700	8,021	47
Total long-term liabilities	1,889,708	1,770,852	15,617
Contingent liabilities (Note 7)			
Net assets:			
Shareholders' equity (Note 8):			
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	181,136	55,000	1,496
Retained earnings (Note 10)	283,622	426,994	2,343
Less treasury stock, at cost – 591 and 485 shares at March 31, 2022 and 2021	(4)	(4)	(0)
Total shareholders' equity	690,891	581,990	5,709
Valuation and translation adjustments:			
Net unrealized holding loss on securities	(2,412)	(1,784)	(19)
Total valuation and translation adjustments	(2,412)	(1,784)	(19)
Total net assets	688,478	580,205	5,689
Total liabilities and net assets	¥ 3,190,533	¥ 3,025,958	\$ 26,368

See accompanying notes to non-consolidated financial statements.



# West Japan Railway Company

## Non-Consolidated Statement of Operations

Year ended March 31, 2022

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2022	2021	2022
Operating revenues:			
Transportation	¥ 487,691	¥ 419,038	\$ 4,030
Transportation incidentals	13,190	12,755	109
Other operations	26,287	26,522	217
Miscellaneous	50,458	48,524	417
	577,627	506,840	4,773
Operating expenses:			
Personnel	180,774	183,878	1,494
Energy	40,810	39,561	337
Maintenance	136,708	151,986	1,129
Depreciation	127,228	141,019	1,051
Rent	26,784	27,643	221
Miscellaneous taxes	35,133	33,697	290
Other	157,205	162,881	1,299
	704,645	740,668	5,823
Operating loss	(127,017)	(233,828)	(1,049)
Other income (expenses):			
Interest and dividend income	2,401	2,410	19
Interest expense	(21,212)	(20,261)	(175)
Gain on contributions received for construction (Note 5)	19,678	11,841	162
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (Note 5)	(18,736)	(11,174)	(154)
Increase in provision for loss on railway line liquidation	(8,638)	-	(71)
Gain on sales of property, plant and equipment	32,834	9,199	271
Loss on sales of property, plant and equipment	-	(59)	-
Subsidies for employment adjustment	5,299	2,169	43
Loss on devaluation of investments in subsidiaries and an affiliate	(8,055)	(30,965)	(66)
Loss related to novel coronavirus	-	(4,566)	-
Other, net (Note 5)	(3,798)	472	(31)
	(228)	(40,933)	(1)
Loss before income taxes	(127,246)	(274,761)	(1,051)
Income taxes (Note 6):			
Current	172	(307)	1
Deferred	(5,813)	(57,129)	(48)
	(5,641)	(57,437)	(46)
Net loss	¥ (121,605)	¥ (217,324)	\$ (1,005)

*See accompanying notes to non-consolidated financial statements.*

# West Japan Railway Company

## Non-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	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2020	¥100,000	¥ 55,000	¥ 670,628	¥ (5)	¥ 825,622	¥ (1,656)	¥(1,656)	¥ 823,966
Net loss for the year	-	-	(217,324)	-	(217,324)	-	-	(217,324)
Cash dividends	-	-	(26,308)	-	(26,308)	-	-	(26,308)
Disposal of treasury stock	-	-	(0)	1	0	-	-	0
Net changes in items other than shareholders' equity	-	-	-	-	-	(128)	(128)	(128)
Balance at April 1, 2021	¥100,000	¥ 55,000	¥ 426,994	¥ (4)	¥ 581,990	¥ (1,784)	¥ (1,784)	¥ 580,205
Net loss for the year	-	-	(121,605)	-	(121,605)	-	-	(121,605)
Cash dividends	-	-	(21,766)	-	(21,766)	-	-	(21,766)
Issuance of new shares	126,136	126,136	-	-	252,273	-	-	252,273
Disposal of treasury stock	-	-	-	(0)	(0)	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	(628)	(628)	(628)
Balance at March 31, 2022	¥226,136	¥ 181,136	¥ 283,622	¥ (4)	¥ 690,891	¥ (2,412)	¥ (2,412)	¥ 688,478

*Millions of U.S. dollars (Note 1)*

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding loss on securities	Total valuation and translation adjustments	Total net assets
Balance at April 1, 2021	\$ 826	\$ 454	\$ 3,528	\$ (0)	\$ 4,809	\$ (14)	\$ (14)	\$ 4,795
Net loss for the year	-	-	(1,005)	-	(1,005)	-	-	(1,005)
Cash dividends	-	-	(179)	-	(179)	-	-	(179)
Issuance of new shares	1,042	1,042	-	-	2,084	-	-	2,084
Disposal of treasury stock	-	-	-	(0)	(0)	-	-	(0)
Net changes in items other than shareholders' equity	-	-	-	-	-	(5)	(5)	(5)
Balance at March 31, 2022	\$ 1,868	\$ 1,496	\$ 2,343	\$ (0)	\$ 5,709	\$ (19)	\$ (19)	\$ 5,689

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements

March 31, 2021

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

#### **Basis of Presentation of Financial Statements**

The accompanying non-consolidated financial statements of West Japan Railway Company (the “Company”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the non-consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

The accompanying non-consolidated financial statements relate to the Company only, with investments in subsidiaries and affiliates being stated at cost based on the moving average method.

The U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from yen solely for the 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 non-consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

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

##### Summary of Significant Accounting Policies

###### (1) *Short-term investments and investments in securities*

Investments in subsidiaries and affiliates are stated at cost based on the moving average method. Marketable securities classified as other securities are stated at fair value, and net unrealized holding gain or loss on such securities is accounted for as a separate component of net assets. Cost of securities sold is determined by the moving average method. Investments in non-marketable securities are stated at cost based on the moving average method.

###### (2) *Inventories*

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

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

Depreciation is determined principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, except for certain railway fixtures whose initial acquisition costs have been depreciated to a book value of 50% of their original costs, with the proviso that any replacement costs be charged to income (Refer to Note 5).

###### (4) *Intangible assets*

Amortization of intangible assets included in other assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, except if they are deemed to contribute to the generation of future income or cost savings. Any such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives, a period of five years.

###### (5) *Deferred assets*

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

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

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

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

*(6) Research and development costs*

Research and development costs are charged to income as incurred.

*(7) 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.

*(8) 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.

*(9) 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.

*(10) Provision for employees' bonuses*

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

*(11) Provision for loss on disaster*

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

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

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

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

##### *(12) Accrued retirement benefits*

Accrued retirement benefits for employees are provided at an expected amount calculated based on the retirement benefit obligation as of the balance sheet date.

In calculating the retirement benefit obligations, the benefit formula basis is applied for the attribution of expected retirement benefits to each period up to the end of the current year.

Prior service cost is charged to income when incurred.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period of ten years, which is shorter than the average remaining years of service of the eligible employees.

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

##### *(13) 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.

##### *(14) Provision for environmental safety measures*

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

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

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

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

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

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

##### *(16) Revenue Recognition*

The Company recognizes revenue at an amount that reflects the consideration to which it 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 revenues in each business segment is as follows:

##### Transportation business

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

##### Other businesses

The Company's other businesses consist mainly of leasing of real estate under management and certain credit card businesses. Revenue from real estate leasing is recognized over the lease term in accordance with the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, March 30, 2007).

Other revenues are mainly recognized over time as services are provided.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

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

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

###### *(16) Revenue Recognition (continued)*

###### Point program

The Company operates a point program for its members. The points awarded for the use of the Company's passenger transportation services can be used to receive future services provided by the Company and other partners. The Company 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 of the point program is deferred as a "contract liability" and revenue is recognized upon the redemption of the points.

###### *(17) 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.

###### *(18) Hedge accounting*

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. The Company enters into currency swap contracts to reduce the foreign currency exchange risk arising from monetary liabilities denominated in foreign currencies. The Company also enters into interest-rate swap contracts to reduce the risk arising from interest rates on financial liabilities. Currency swap contracts which meet certain conditions are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding currency swap contract rates (the "allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally been applied to the underlying debt (the "special treatment").

The Company hedges foreign currency exchange rate risk and interest rate risk on hedged items within certain ranges based on its internal rules for derivative transactions.



# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

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

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

##### *(18) Hedge accounting (continued)*

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

##### *(19) Asset retirement obligations*

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

### 2. Significant Accounting Estimates

#### (a) Recoverability of Deferred Tax Assets

The Company recorded net deferred tax assets of ¥170,226 million (\$1,406 million) and ¥164,085 million 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 2021, respectively.

The calculation methods applied for these amounts are described in Note 2 (a) in the notes to consolidated financial statements.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 3. Accounting Changes

(Application of “Accounting Standard for Revenue Recognition”)

Effective from the beginning of the year ended March 31, 2022, the Company 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 points are provided to customers at the time of sales, for which the Company previously recognized at the gross amount of consideration received from customers, the Company recognizes the points provided to customers at the time of sales as an obligation performance, and recognizes revenue at the net amount received from customers less the points provided.

The changes in accounting policies were, in principle, applied retrospectively, and the non-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, total operating revenues of the railway business and other operations and total operating expenses of the railway business and other operations decreased by ¥1,069 million. Due to the application of “Accounting Standard for Revenue Recognition,” “Provision for customer point programs” presented in “Current liabilities” in the non-consolidated balance sheet as of March 31, 2021, is changed to “Deposits and advances received” from the year ended March 31, 2022.

In addition, in accordance with transitional treatment stipulated in Paragraph 89-3 of “Accounting Standard for Revenue Recognition,” notes on revenue recognition for the previous year are not disclosed.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 3. Accounting Changes (continued)

(Application of Accounting Standard for Fair Value Measurement)

The Company 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 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 non-consolidated financial statements for the year ended March 31, 2022 from this application.

(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 Company 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 the above changes, the Company will optimize its train operating system to best suit 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 over the long-term and in a stable manner to enhance the convenience of Sanyo Shinkansen.

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 a long-term and stable manner.

Furthermore, as a result of examining the actual use of Shinkansen rolling stock, which was triggered by the consideration of 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.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### **3. Accounting Changes (continued)**

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

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 station and Miyoshi station), for which the railway business was discontinued on April 1, 2018, the Company recorded provision for loss on railway line liquidation in order to provide for expenditures corresponding to the dismantlement of bridges, electric power facilities and other items after the decommissioning of the line.

In response to the rapid environmental changes caused by severe disasters in recent years such as torrential rains, 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 allowance for railway line liquidation loss before the change.

As a result of this change in estimate, loss before income taxes increased by ¥8,638 million (\$71 million) for the year ended March 31, 2022.

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 4. Balances with Subsidiaries and Affiliates

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

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2022	2021	2022
Investments in:			
Subsidiaries	¥ 239,975	¥ 247,201	\$ 1,983
Affiliates	29,160	28,809	240
Advances to subsidiaries	182,927	127,410	1,511
	¥ 452,063	¥ 403,422	\$ 3,736

Investments in an affiliate whose fair value is determinable at March 31, 2022 and 2021 are summarized as follows:

	<i>Millions of yen</i>					
	2022			2021		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Investments in an affiliate	¥ 1,593	¥ 3,869	¥ 2,276	¥ 1,593	¥ 4,237	¥ 2,644

	<i>Millions of U.S. dollars</i>		
	2022		
	Carrying value	Estimated fair value	Difference
Investments in an affiliate	\$ 13	\$ 31	\$ 18

At March 31, 2022, investments in subsidiaries and affiliates that do not have a market value are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2022	2022
Investments in:		
Subsidiaries	¥ 239,975	\$ 1,983
Affiliates	27,567	227
	¥ 267,543	\$ 2,211

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 4. Balances with Subsidiaries and Affiliates (continued)

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

	<i>Millions of yen</i>
	2021
Investments in:	
Subsidiaries	¥ 247,201
Affiliates	27,216
	¥ 274,418

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

Amounts due to subsidiaries and affiliates at March 31, 2022 and 2021 are presented in the accompanying non-consolidated balance sheets as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2022	2021	2022
Due to subsidiaries and affiliates:			
Short-term loans	¥210,220	¥235,481	\$ 1,737

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2022 and 2021 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2022	2021	2022
Land	¥ 644,982	¥ 643,416	\$ 5,330
Buildings	510,830	508,796	4,221
Railway fixtures and structures	2,420,374	2,386,933	20,003
Rolling stock and other vehicles	1,206,766	1,191,113	9,973
Ships	4	4	0
Machinery and equipment	409,733	399,060	3,386
Furniture and fixtures	93,802	93,182	775
Leases	1,664	1,798	13
Construction in progress	120,530	94,469	996
	<u>5,408,688</u>	<u>5,318,775</u>	<u>44,699</u>
Less accumulated depreciation	<u>(3,401,000)</u>	<u>(3,324,136)</u>	<u>(28,107)</u>
Property, plant and equipment, net	<u>¥ 2,007,687</u>	<u>¥ 1,994,638</u>	<u>\$ 16,592</u>

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

Compensation for the expropriation of properties received from national and municipal governments and others, in accordance with the Corporation Tax Law, is also recognized as other income upon receipt. These compensation amounts are deducted directly from the acquisition costs of the properties acquired to replace the properties expropriated.

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.

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

## West Japan Railway Company

### Notes to Non-Consolidated Financial Statements (continued)

#### 6. Income Taxes

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

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

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2022	2021	2022
Deferred tax assets:			
Provision for employees' bonuses	¥ 3,804	¥ 3,853	\$ 31
Accrued social insurance premiums included in accrued expenses	436	101	3
Accrued enterprise taxes included in income taxes payable	572	559	4
Accrued retirement benefits	63,097	68,952	521
Provision for environmental safety measures	1,800	2,286	14
Unrealized holding loss on securities	1,156	829	9
Tax loss carryforwards	122,892	89,305	1,015
Other	57,645	46,736	476
Total gross deferred tax assets	<u>251,405</u>	<u>212,624</u>	<u>2,077</u>
Valuation allowance related to tax loss carryforwards	(43,649)	(16,207)	(360)
Valuation allowance related to total future deductible temporary differences	<u>(26,183)</u>	<u>(20,282)</u>	<u>(216)</u>
Total valuation allowance	<u>(69,833)</u>	<u>(36,490)</u>	<u>(577)</u>
Total deferred tax assets	<u>181,571</u>	<u>176,134</u>	<u>1,500</u>
Deferred tax liabilities:			
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,119)	(11,149)	(91)
Other	<u>(225)</u>	<u>(899)</u>	<u>(1)</u>
Total deferred tax liabilities	<u>(11,345)</u>	<u>(12,048)</u>	<u>(93)</u>
Deferred tax assets, net	<u>¥170,226</u>	<u>¥ 164,085</u>	<u>\$ 1,406</u>



# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

### 7. Contingent Liabilities

At March 31, 2022, the Company had a commitment to provide guarantees of loans and was also contingently liable for guarantees of loans, accounts payable-trade and other obligations of the Company's subsidiaries, affiliates and a third party in the aggregate amount of ¥67,369 million (\$556 million).

The Company expects further expenditures to be incurred in subsequent years relating to the payment of compensation for a train accident on the Fukuchiyama Line, which occurred on April 25, 2005, as well as other related costs; however, it is unable to estimate the amounts of such expenditures on a reasonable basis at the present time.

### 8. Shareholders' Equity

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

Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying non-consolidated balance sheet and non-consolidated statement of changes in net assets. The Company's legal reserve included in retained earnings at March 31, 2022 and 2021 amounted to ¥11,327 million (\$93 million).

### 9. Amounts per Share

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

	<i>Yen</i>		<i>U.S. dollars</i>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Net assets	¥2,821.62	¥3,032.42	\$ 23.31
Net loss	(554.06)	(1,135.84)	(4.57)
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.

Net loss per share has been computed based on the net loss attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year.

# West Japan Railway Company

## Notes to Non-Consolidated Financial Statements (continued)

### 9. Amounts per Share (continued)

Diluted net income per share has not been presented for the years ended March 31, 2022 and 2021 since the Company recorded net loss for these years and had no potentially dilutive stock at March 31, 2022 and 2021.

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.

### 10. Subsequent Events

#### (1) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2022, was approved at a meeting of the shareholders of the Company held on June 23, 2022:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
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 carryforward

The Company received approved on special tax measures from the Minister of Land, Infrastructure, Transport and Tourism as 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 these special tax measures, the Company is able to record deferred tax assets for tax loss carryforwards, which is expected to improve net income for the year ending March 31, 2023.