

Consolidated Financial Statements

West Japan Railway Company

*Year ended March 31, 2023
with Independent Auditor's Report*

West Japan Railway Company
Consolidated Financial Statements

Year ended March 31, 2023

Contents

Consolidated Financial Statements

Independent Auditor's Report	1
Consolidated Balance Sheet	8
Consolidated Statement of Operations	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Changes in Net Assets	12
Consolidated Statement of Cash Flows	15
Notes to Consolidated Financial Statements	17

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, 2023, 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, 2023, 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.

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 26 "Segment Information" in the notes to consolidated financial statements, revenues from external customers in the Transportation segment recorded by West Japan Railway Company (the "Company") and its consolidated subsidiaries for the year ended March 31, 2023 included railway business revenues, which consisted mainly of the Company's transportation revenues.	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 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.
Transportation revenues are recorded by	We mainly performed the following audit

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.

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

	<ul style="list-style-type: none"> • Confirmation of balances of receivables from credit card companies and receivables from other JR passenger railway companies for inter-line fares.
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Recoverability of Deferred Tax Assets of West Japan Railway Company

Description of Key Audit Matter	Auditor's Response
<p>The Group recorded total deferred tax assets of ¥232,895 million (\$1,751 million) on the consolidated balance sheet as of March 31, 2023. As described in Note 6, “Income Taxes” in the notes to non-consolidated financial statements, of the above amount, the Company recorded total deferred tax assets of ¥211,939 million (\$1,593 million) (¥200,573 (\$1,508 million) million after offsetting against deferred tax liabilities) calculated by deducting a valuation allowance of ¥30,204 million (\$227 million) from total gross deferred tax assets of ¥242,144 million (\$1,820 million) (including deferred tax assets of ¥115,054 million (\$865 million) related to tax loss carryforwards of the Company). (**)</p> <p>The Company records deferred tax assets by estimating future taxable income or tax loss based on future business plans.</p> <p>Although the railway demand is recovering as the impact of COVID-19 was declined during the year ended March 31, 2023, the impact on the railway demand from changes in social behavior triggered by COVID-19 and any resurgence of COVID-19 is unclear.</p> <p>As described in “(a) Recoverability of Deferred Tax Assets” in Note 2, “Significant Accounting Estimates” in the notes to consolidated financial statements, the significant assumptions used in estimating future taxable income are the period required for the recovery of railway demand from the impact of COVID-19, which is expected to be recovered during the year ended March 31, 2024, and the extent of recovery, which is expected to be recovered up to approximately 90% of the level before the outbreak of COVID-19 regarding transportation revenues, which account for a large part of the Company's operating revenues.</p>	<p>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.</p> <ul style="list-style-type: none"> • 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 period required for the recovery of the railway demand, 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 railway demand by external research organizations. • We conducted a sensitivity analysis on significant assumptions of the impact on the railway demand in the event of a resurgence in COVID-19 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.

Given that the significant assumptions applied in the future business plan involve uncertainties of the impact on railway demand in the event of a resurgence in COVID-19 and require management's judgement in assessing the recoverability of deferred tax assets, we determined this to be a key audit matter.	
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Impairment of Property, Plant and Equipment Held by West Japan Railway Hotel Development Ltd.	
Description of Key Audit Matter	Auditor's Response
<p>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.</p> <p>As described in (b) "Impairment of Property, Plant and Equipment and intangible assets in other assets" in Note 2 "Significant Accounting Estimates" in the notes to consolidated financial statements, property, plant and equipment and intangible assets in other assets held by West Japan Railway Hotel Development Ltd., which is a consolidated subsidiary that operates the main hotels of the Group, amounted to ¥14,673 million (\$110 million) as of March 31, 2023. (**)</p> <p>West Japan Railway Hotel Development Ltd. determined that there were indications of impairment for the asset groups related to its property, plant and equipment and intangible assets in other assets during the year ended March 31, 2023 as profitability from operating activities has continued to be negative although the business environment is recovering as a result of an increase in travel demand through a national travel support program and the recovery of lodging demand due to the improvement in the COVID-19 situation. However, an impairment loss was not recognized as the estimated future cash flows over the remaining useful lives of major assets generated from the asset groups exceeded the carrying value.</p> <p>The estimated future cash flows generated from the continuous use of the asset groups</p>	<p>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.</p> <ul style="list-style-type: none"> • 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 of the lodging demand, which had declined due to the impact of COVID-19, and the extent of the recovery, which serve as the basis for the 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. <ol style="list-style-type: none"> 1. Period required for the recovery of the lodging demand and the extent of the

<p>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.</p> <p>As described in (b) “Impairment of Property, Plant and Equipment and intangible assets in other assets” 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 lodging demand due to improvement in the COVID-19 situation, which is expected to take place during the year ending March 31, 2024, the extent of the recovery, which is expected return to the same level as before the outbreak of COVID-19 and operating performance for periods subsequent to the period covered by the business plan.</p> <p>Given that the significant assumptions used to estimate the future cash flows involve uncertainty due to the impact of COVID-19 and require management’s judgement, we determined this to be a key audit matter.</p>	<p>recovery</p> <p>Examined the consistency of the assumptions based on The Tourism Nation Promotion Basic Plan by Ministry of Land, Infrastructure, Transport and Tourism, the recovery in the actual number of flights and report by external research organizations on future prospects for domestic lodging demand.</p> <p>2. Performance for periods subsequent to the period covered by the business plan</p> <p>Examined the consistency of the assumptions based on published materials containing reports on future prospects for domestic lodging demand.</p>
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(**) The translation of Japanese yen amounts into U.S. dollar amounts has been made on the basis described in Note 1 to the consolidated financial statements.

Other Information

Other information comprises the information included in disclosure documents that contains audited consolidated financial statements, but does not include the consolidated financial statements and our auditor’s report thereon.

We have concluded that other information does not exist. Accordingly, we have not performed any work related to 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, 2023 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, 2023

Kaname Matsumoto
Designated Engagement Partner
Certified Public Accountant

Yoshihiro Shibata
Designated Engagement Partner
Certified Public Accountant

Masahiko Naka
Designated Engagement Partner
Certified Public Accountant

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copy (with electronic signature) is kept separately by the Company.

West Japan Railway Company

Consolidated Balance Sheet

As of March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2023	2022	2023
Assets			
Current assets:			
Cash and deposits (<i>Notes 5, 12 and 23</i>)	¥ 290,138	¥ 319,843	\$ 2,181
Short-term investments (<i>Notes 6, 12 and 23</i>)	36	79	0
Notes and accounts receivable (<i>Notes 18 and 23</i>):			
Unconsolidated subsidiaries and affiliates	1,351	1,552	10
Trade	203,056	165,334	1,526
Less allowance for doubtful accounts	(1,616)	(588)	(12)
Inventories (<i>Note 7</i>)	153,234	145,884	1,152
Prepaid expenses and other current assets (<i>Note 18</i>)	70,330	85,943	528
Total current assets	716,532	718,048	5,387
Investments:			
Unconsolidated subsidiaries and affiliates (<i>Notes 8 and 23</i>)	66,426	64,838	499
Other securities (<i>Notes 6, 12 and 23</i>)	35,554	32,681	267
Total investments	101,980	97,520	766
Property, plant and equipment, at cost (<i>Notes 2, 9, 10 and 12</i>):			
Land	782,965	782,009	5,886
Buildings and structures	3,668,413	3,611,474	27,582
Machinery, equipment and vehicles	1,717,933	1,668,097	12,916
Tools, furniture and fixtures	188,569	188,658	1,417
Construction in progress	117,193	150,783	881
	6,475,076	6,401,023	48,684
Less accumulated depreciation	(3,893,871)	(3,791,242)	(29,277)
Property, plant and equipment, net	2,581,205	2,609,781	19,407
Deferred income taxes (<i>Notes 2 and 14</i>)	232,895	197,964	1,751
Asset for retirement benefits (<i>Note 16</i>)	3,173	3,134	23
Other assets (<i>Note 12</i>)	99,052	74,831	744
Total other assets	335,121	275,930	2,519
Deferred assets			
Share issuance costs	668	1,140	5
Total deferred assets	668	1,140	5
Total assets (<i>Note 26</i>)	¥ 3,735,507	¥ 3,702,421	\$ 28,086

West Japan Railway Company

Consolidated Balance Sheet (continued)

As of March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2023	2022	2023
Liabilities and net assets			
Current liabilities:			
Short-term loans (<i>Notes 11 and 23</i>)	¥ 17,483	¥ 14,229	\$ 131
Current portion of long-term debt (<i>Notes 11, 23 and 24</i>)	141,420	98,420	1,063
Current portion of long-term payables (<i>Notes 13 and 23</i>)	1,245	1,167	9
Notes and accounts payable (<i>Notes 12, 18, 23 and 24</i>):			
Unconsolidated subsidiaries and affiliates	3,715	2,043	27
Trade	183,949	160,570	1,383
Prepaid railway fares received (<i>Note 18</i>)	37,244	30,404	280
Deposits and advances received (<i>Note 23</i>)	165,829	188,008	1,246
Accrued expenses (<i>Note 23</i>)	33,234	25,498	249
Income taxes payable (<i>Notes 14 and 23</i>)	9,992	7,438	75
Provision for employees' bonuses	29,540	23,480	222
Provision for customer point programs	706	654	5
Provision for loss on disaster	396	1,205	2
Other current liabilities (<i>Note 18</i>)	33,704	22,777	253
Total current liabilities	658,464	575,898	4,950
Long-term liabilities:			
Long-term debt (<i>Notes 11, 23 and 24</i>)	1,445,041	1,557,855	10,864
Long-term payables (<i>Notes 13 and 23</i>)	97,436	98,681	732
Liability for retirement benefits (<i>Note 16</i>)	223,318	238,077	1,679
Provision for large-scale renovation of Shinkansen infrastructure	29,166	25,000	219
Provision for environmental safety measures	3,414	5,880	25
Provision for loss on railway line liquidation	15,794	16,627	118
Deferred income taxes (<i>Notes 2 and 14</i>)	1,474	1,145	11
Other long-term liabilities	117,087	109,042	880
Total long-term liabilities	1,932,733	2,052,311	14,531
Contingent liabilities (<i>Note 17</i>)			
Net assets:			
Shareholders' equity (<i>Note 19</i>):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2023 and 2022			
Issued and outstanding – 244,001,600 and 244,001,600 shares at March 31, 2023 and 2022	226,136	226,136	1,700
Capital surplus	183,904	183,812	1,382
Retained earnings (<i>Note 27</i>)	626,108	561,874	4,707
Less treasury stock, at cost –315,970 and 129,719 shares at March 31, 2023 and 2022	(1,378)	(482)	(10)
Total shareholders' equity	1,034,772	971,341	7,780
Accumulated other comprehensive income (loss):			
Net unrealized holding gain (loss) on securities	1,061	(1,270)	7
Net unrealized deferred loss on hedging instruments	(9)	–	(0)
Retirement benefits liability adjustments (<i>Note 16</i>)	(1,347)	(1,131)	(10)
Total accumulated other comprehensive loss	(295)	(2,402)	(2)
Non-controlling interests	109,832	105,272	825
Total net assets	1,144,309	1,074,211	8,603
Total liabilities and net assets	¥ 3,735,507	¥ 3,702,421	\$ 28,086

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Operations

Year ended March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2023	2022	2023
Operating revenues (<i>Notes 10 and 26</i>)	¥ 1,395,531	¥ 1,031,103	\$ 10,492
Operating expenses:			
Transportation, other services and cost of sales (<i>Note 10</i>)	1,126,833	987,857	8,472
Selling, general and administrative expenses (<i>Note 20</i>)	184,727	162,338	1,388
	<u>1,311,560</u>	<u>1,150,195</u>	<u>9,861</u>
Operating income (loss) (<i>Note 26</i>)	83,970	(119,091)	631
Other income (expenses):			
Interest and dividend income	1,039	3,255	7
Interest expense	(20,816)	(21,450)	(156)
Equity in earnings of affiliates	1,099	1,022	8
Gain on contributions received for construction (<i>Note 9</i>)	65,983	19,678	496
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (<i>Note 9</i>)	(63,493)	(18,375)	(477)
Gain on sales of property, plant and equipment (<i>Note 10</i>)	7,262	33,674	54
Loss on sales of property, plant and equipment	(78)	(185)	(0)
Employment adjustment subsidies	1,854	10,506	13
Reversal of allowance for doubtful accounts	1,708	173	12
Loss on devaluation of investments in securities (<i>Note 6</i>)	(696)	(4,293)	(5)
Other, net (<i>Note 10</i>)	(4,959)	(10,488)	(37)
	<u>(11,097)</u>	<u>13,518</u>	<u>(83)</u>
Profit (loss) before income taxes	72,873	(105,573)	547
Income taxes (<i>Note 14</i>):			
Current	14,429	11,378	108
Deferred	(35,426)	(6,186)	(266)
	<u>(20,997)</u>	<u>5,191</u>	<u>(157)</u>
Profit (loss)	93,871	(110,764)	705
Profit attributable to non-controlling interests	5,342	2,433	40
Profit (loss) attributable to owners of parent	<u>¥ 88,528</u>	<u>¥ (113,198)</u>	<u>\$ 665</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Comprehensive Income

Year ended March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Profit (loss)	¥ 93,871	¥ (110,764)	\$ 705
Other comprehensive loss (Note 21):			
Net unrealized holding gain (loss) on securities	2,442	(484)	18
Net unrealized deferred loss on hedging instruments	(12)	—	(0)
Retirement benefit liability adjustments (Note 16)	(275)	(975)	(2)
Other comprehensive loss of affiliates accounted for by the equity method attributable to owners of parent	(29)	(1)	(0)
Total other comprehensive income (loss)	<u>2,125</u>	<u>(1,462)</u>	<u>15</u>
Total comprehensive income (loss)	<u>¥ 95,996</u>	<u>¥ (112,226)</u>	<u>\$ 721</u>

Comprehensive income (loss) attributable to owners of parent and non-controlling interests for the years ended March 31, 2023 and 2022 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Comprehensive income (loss) attributable to owners of parent	¥ 90,635	¥ (114,838)	\$ 681
Comprehensive income attributable to non-controlling interests	5,361	2,611	40

West Japan Railway Company

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2023

	<i>Millions of yen</i>				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2021	¥ 100,000	¥ 57,454	¥ 696,843	¥ (482)	¥ 853,815
Issuance of new shares	126,136	126,136	—	—	252,273
Cash dividends	—	—	(21,766)	—	(21,766)
Loss attributable to owners of parent	—	—	(113,198)	—	(113,198)
Change in scope of consolidation	—	—	(8)	—	(8)
Increase due to merger	—	—	4	—	4
Purchase of treasury stock	—	—	—	(0)	(0)
Increase due to changes in equity in affiliates accounted for by the equity method	—	—	—	0	0
Increase due to purchase of shares of a consolidated subsidiary	—	221	—	—	221
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at April 1, 2022	<u>¥ 226,136</u>	<u>¥ 183,812</u>	<u>¥ 561,874</u>	<u>¥ (482)</u>	<u>¥ 971,341</u>
Cash dividends	—	—	(24,390)	—	(24,390)
Profit attributable to owners of parent	—	—	88,528	—	88,528
(Decrease) increase due to merger	—	(62)	97	—	34
Purchase of treasury stock	—	—	—	(963)	(963)
Disposal of treasury stock	—	0	—	68	69
Increase due to purchase of shares of a consolidated subsidiary	—	153	—	—	153
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2023	<u>¥ 226,136</u>	<u>¥ 183,904</u>	<u>¥ 626,108</u>	<u>¥ (1,378)</u>	<u>¥ 1,034,772</u>

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2023

Millions of yen

	Net unrealized holding (loss) gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Non- controlling interests	Total net assets
Balance at April 1, 2021	¥ (780)	¥ 0	¥ 17	¥ (762)	¥ 103,203	¥ 956,256
Issuance of new shares	—	—	—	—	—	252,273
Cash dividends	—	—	—	—	—	(21,766)
Loss attributable to owners of parent	—	—	—	—	—	(113,198)
Change in scope of consolidation	—	—	—	—	—	(8)
Increase due to merger	—	—	—	—	—	4
Purchase of treasury stock	—	—	—	—	—	(0)
Increase due to changes in equity in affiliates accounted for by the equity method	—	—	—	—	—	0
Increase due to purchase of shares of a consolidated subsidiary	—	—	—	—	—	221
Net changes in items other than shareholders' equity	(490)	(0)	(1,149)	(1,639)	2,069	429
Balance at April 1, 2022	¥ (1,270)	¥ —	¥ (1,131)	¥ (2,402)	¥ 105,272	¥ 1,074,211
Cash dividends	—	—	—	—	—	(24,390)
Profit attributable to owners of parent	—	—	—	—	—	88,528
(Decrease) increase due to merger	—	—	—	—	—	34
Purchase of treasury stock	—	—	—	—	—	(963)
Disposal of treasury stock	—	—	—	—	—	69
Increase due to purchase of shares of a consolidated subsidiary	—	—	—	—	—	153
Net changes in items other than shareholders' equity	2,332	(9)	(215)	2,106	4,559	6,666
Balance at March 31, 2023	¥ 1,061	¥ (9)	¥ (1,347)	¥ (295)	¥ 109,832	¥ 1,144,309

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2023

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2022	\$ 1,700	\$ 1,382	\$ 4,224	\$ (3)	\$ 7,303
Cash dividends	—	—	(183)	—	(183)
Profit attributable to owners of parent	—	—	665	—	665
(Decrease) increase due to merger	—	(0)	0	—	0
Purchase of treasury stock	—	—	—	(7)	(7)
Disposal of treasury stock	—	0	—	0	0
Increase due to purchase of shares of a consolidated subsidiary	—	1	—	—	1
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2023	<u>\$ 1,700</u>	<u>\$ 1,382</u>	<u>\$ 4,707</u>	<u>\$ (10)</u>	<u>\$ 7,780</u>

Millions of U.S. dollars (Note 1)

	Net unrealized holding (loss) gain on securities	Net unrealized deferred gain (loss) on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Non- controlling interests	Total net assets
Balance at April 1, 2022	\$ (9)	\$ —	\$ (8)	\$ (18)	\$ 791	\$ 8,076
Cash dividends	—	—	—	—	—	(183)
Profit attributable to owners of parent	—	—	—	—	—	665
(Decrease) increase due to merger	—	—	—	—	—	0
Purchase of treasury stock	—	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	—	0
Increase due to purchase of shares of a consolidated subsidiary	—	—	—	—	—	1
Net changes in items other than shareholders' equity	17	(0)	(1)	15	34	50
Balance at March 31, 2023	<u>\$ 7</u>	<u>\$ (0)</u>	<u>\$ (10)</u>	<u>\$ (2)</u>	<u>\$ 825</u>	<u>\$ 8,603</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Cash Flows

Year ended March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2023	2022	2023
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 72,873	¥ (105,573)	\$ 547
Adjustments for:			
Depreciation and amortization	159,655	160,868	1,200
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	63,493	18,375	477
Loss on disposal of property, plant and equipment	5,228	5,984	39
Gain on sales of property, plant and equipment	(7,184)	(33,488)	(54)
Decrease in liability for retirement benefits	(15,416)	(18,686)	(115)
Decrease in allowance for doubtful accounts	(147)	(113)	(1)
Increase in provision for employees' bonuses	6,055	4	45
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	31
(Decrease) increase in other accruals	(4,089)	5,721	(30)
Interest and dividend income	(1,039)	(3,255)	(7)
Interest expense	20,816	21,450	156
Equity in earnings of affiliates	(1,099)	(1,022)	(8)
Gain on contributions received for construction	(65,983)	(19,678)	(496)
Increase in notes and accounts receivable	(37,305)	(39,478)	(280)
Increase in inventories	(3,364)	(22,680)	(25)
Increase (decrease) in notes and accounts payable	55,335	(41,733)	416
Increase in consumption taxes payable, net	15,073	10,194	113
Other	37,883	8,563	284
Subtotal	304,952	(50,382)	2,292
Interest and dividend received	1,033	3,254	7
Interest paid	(20,633)	(21,215)	(155)
Income taxes paid	(11,388)	(18,124)	(85)
Net cash provided by (used in) operating activities	¥ 273,964	¥ (86,468)	\$ 2,059

West Japan Railway Company

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2023

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2023	2022	2023
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets in other assets	¥ (246,013)	¥ (240,480)	\$ (1,849)
Proceeds from sales of property, plant and equipment	11,389	34,832	85
Contributions received for construction	28,920	26,365	217
Purchases of investments in securities	(2,375)	(1,829)	(17)
Proceeds from sales of investments in securities	700	1,582	5
Net increase in loans receivable	(1,304)	(3,144)	(9)
Other	(6,218)	(6,036)	(46)
Net cash used in investing activities	(214,902)	(188,711)	(1,615)
Cash flows from financing activities			
Net increase (decrease) in short-term loans	1,217	(5,104)	9
Proceeds from long-term loans	18,600	68,600	139
Repayments of long-term loans	(71,572)	(36,952)	(538)
Proceeds from issuance of bonds	10,000	160,000	75
Redemption of bonds	(25,000)	(25,000)	(187)
Payment of long-term payables	(1,167)	(1,309)	(8)
Proceeds from issuance of new shares	—	250,857	—
Purchases of treasury stock	(963)	(0)	(7)
Cash dividends paid to owners of parent	(24,400)	(23,214)	(183)
Cash dividends paid to non-controlling interests	(235)	(305)	(1)
Other	4,756	(2,885)	35
Net cash (used in) provided by financing activities	(88,765)	384,685	(667)
Net (decrease) increase in cash and cash equivalents	(29,703)	109,505	(223)
Cash and cash equivalents at beginning of year	319,596	210,045	2,402
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	—	45	—
Cash and cash equivalents at end of year (Note 5)	¥ 289,893	¥ 319,596	\$ 2,179

West Japan Railway Company

Notes to Consolidated Financial Statements

March 31, 2023

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.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan.

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 ¥133= U.S. \$1.00, the exchange rate prevailing on March 31, 2023. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or undisposed losses (the equity method). Consolidated profit includes the Company's equity in the current profit or loss of such companies after the elimination of unrealized intercompany gain or loss.

The balance sheet date of one consolidated subsidiary is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary. The balance sheet date of the remaining consolidated subsidiaries is March 31, which is same as that of the consolidated financial statements.

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 March 31, which is 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(4) *Derivative financial instruments*

Derivative financial instruments are stated at fair value.

(5) *Inventories*

Inventories are stated at lower of cost or net selling value, cost being determined 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 9).

(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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(10) Leases

Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalized and depreciated over the respective lease terms to a nil residual value by the straight-line method.

(11) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(12) Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.

(13) Provision for employees' bonuses

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

(14) Provision for customer point programs

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

(15) Provision for loss on disaster

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(16) Retirement benefits

The asset and liability for retirement benefits are provided principally at an expected amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of the balance sheet date.

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

Prior service cost is principally charged to income when incurred.

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

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the “Simplified Method”).

(17) Provision for large-scale renovation of Shinkansen infrastructure

Provision for large-scale renovation of Shinkansen infrastructure is provided based on the Article 17, Paragraph 1, of the Nationwide Shinkansen Railway Development Act.

(18) Provision for environmental safety measures

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

(19) Provision for loss on railway line liquidation

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(20) 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" (Accounting Standards Board of Japan ("ASBJ") Statement No. 13, March 30, 2007).

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(20) 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(20) 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 presents 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.

(21) Recognition of revenue derived from finance lease transactions as a lessor

Revenue from finance lease transactions and its related cost are recognized upon receipt of lease payments.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

Summary of Significant Accounting Policies (continued)

(22) 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 and forecast transactions 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 ¥200,573 million (\$1,508 million) and ¥170,226 million were recorded by the Company (total deferred tax assets of ¥211,939 million (\$1,593 million) and ¥181,571 million before offsetting against deferred tax liabilities) as of March 31, 2023 and 2022, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Estimates (continued)

(a) Recoverability of Deferred Tax Assets (continued)

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

1) Method of Calculation

Of the amount of net deferred tax assets recorded in the consolidated financial statements, a large proportion was attributable to the Company in the amount of ¥200,573 million (\$1,508 million) as of March 31, 2023. 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 Assumptions

In estimating future taxable income, the Company incorporated the impact of the COVID-19 based on certain assumptions. Regarding transportation revenues, which account for a large part of the Company's operating revenues, it is assumed that a recovery in railway demand will occur during the year ending March 31, 2024. Regarding the extent of the recovery, 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 railway demand during the year ended March 31, 2023.

3) Financial Impact for the Following Year

The above represents management's best estimate based on information available at this time. In the case that the recovery of railway demand is delayed longer than expected, or in the other cases, the amount of deferred tax assets recorded in the next year may be limited and financial performance of the Company may be affected.

(b) Impairment of Property, Plant and Equipment and intangible assets in other assets

1. Property, plant and equipment and intangible assets in other assets of ¥14,673 million (\$110 million) and ¥26,442 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, 2023 and 2022, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Estimates (continued)

(b) Impairment of Property, Plant and Equipment and intangible assets in other assets (continued)

2. Information regarding significant accounting estimates for the identified item

1) Method of Calculation

As of March 31, 2023, WJRHDL, which operates the main hotels of the Group, recorded property, plant and equipment and intangible assets in other assets of ¥14,673 million (\$110 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 and intangible assets in other assets under a future business plan based on reasonable assumptions is less than its carrying value. For the year ended March 31, 2023, although the business environment has improved due to a recovery in demand for lodging as the effects of COVID-19 have been largely contained, profit or loss from operating activities has continued to be negative. Therefore, WJRHDL determined that there were indications of impairment. However, no impairment loss was recognized as the estimated future cash flows over the remaining useful lives of the major property, plant and equipment exceeded the carrying value.

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 demand for lodging will recover during the year ending March 31, 2024. The extent of the recovery during the year ending March 31, 2024 is expected to be at the same level as the level before the outbreak of COVID-19, based on the recovery status during the current year and other factors during the year ending March 31, 2024. Also, it is assumed that estimated future cash flow will continue to be at the same level as the level of the final year of the business plan, which is the year ending March 31, 2028.

3) Financial Impact for the Following Year

WJRHDL believes that the above represents management's best estimate based on information available at this time. If it takes longer than expected to contain the impact of COVID-19, it is possible that the future cash flows could be lower than the amount estimated in the year ended March 31, 2023 and an impairment loss could be recorded.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

3. Accounting Changes

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” ((ASBJ Guidance No. 31, June 17, 2021), hereinafter the “Guidance”) has been adopted from the beginning of the year ended March 31, 2023, and new accounting policies are adopted prospectively in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Guidance. There was no impact on the consolidated financial statements for the year ended March 31, 2023 from this application.

4. Accounting Standards Issued but Not Yet Effective

- Accounting Standard for Current Income Taxes
(ASBJ Guidance No. 27, October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income
(ASBJ Guidance No. 25, October 28, 2022)
- Implementation Guidance on Accounting Standard for Tax Effect Accounting
(ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

In February 2018, Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) and others were announced and the practical guidance for tax effect accounting prepared by the Japanese Institute of Certified Public Accountants was transferred to ASBJ. The following two issues, which were decided to be discussed again after announcement in the course of discussion of the amendments, were discussed and announced.

- The accounting classification for corporate taxes resulting from other comprehensive that is subject to taxation,
- The treatment of tax effects related to the sale of shares in subsidiaries or affiliates when group taxation regime is applied.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

4. Accounting Standards Issued but Not Yet Effective (continued)

(2) Scheduled date of adoption

The accounting standards and the implementation guidance will be adopted effective from the beginning of the year ending March 31, 2025.

(3) Impact of adoption of the accounting standards and implementation guidance

The impact on the adoption of the accounting standards and implementation guidance on its consolidated financial statements are undetermined at this time.

5. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2023 and 2022 are reconciled to the balances of cash and cash equivalents as presented in the accompanying consolidated statements of cash flows for the years then ended as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Cash and deposits	¥ 290,138	¥ 319,843	\$ 2,181
Time deposits with original maturities in excess of three months included in cash and deposits	(245)	(246)	(1)
Cash and cash equivalents	<u>¥ 289,893</u>	<u>¥ 319,596</u>	<u>\$ 2,179</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

6. 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, 2023 and 2022. 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, 2023 and 2022 are summarized as follows:

	<i>Millions of yen</i>					
	2023			2022		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 12,619	¥ 6,961	¥ 5,658	¥ 10,277	¥ 6,904	¥ 3,372
Debt securities:						
Government bonds	41	41	0	121	120	0
Corporate bonds	42	33	9	—	—	—
Subtotal	12,704	7,036	5,667	10,398	7,025	3,373
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	16,641	21,457	(4,816)	15,656	21,512	(5,855)
Subtotal	16,641	21,457	(4,816)	15,656	21,512	(5,855)
Total	¥ 29,345	¥ 28,494	¥ 850	¥ 26,055	¥ 28,537	¥ (2,482)

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

	<i>Millions of U.S. dollars</i>		
	2023		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 94	\$ 52	\$ 42
Debt securities:			
Government bonds	0	0	0
Corporate bonds	0	0	0
Subtotal	95	52	42
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	125	161	(36)
Subtotal	125	161	(36)
Total	\$ 220	\$ 214	\$ 6

7. Inventories

Inventories at March 31, 2023 and 2022 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Merchandise and real estate for sale	¥ 32,472	¥ 21,926	\$ 244
Work in progress	98,497	100,829	740
Rails, materials and supplies	22,264	23,127	167
	¥ 153,234	¥ 145,884	\$ 1,152

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

8. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2023 and 2022 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Investments in:			
Unconsolidated subsidiaries	¥ 18,411	¥ 17,913	\$ 138
Affiliates	48,014	46,925	361
	<u>¥ 66,426</u>	<u>¥ 64,838</u>	<u>\$ 499</u>

9. 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, 2023 and 2022 amounted to ¥830,532 million (\$6,244 million) and ¥768,547 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, 2023 and 2022 amounted to ¥1,379 million (\$10 million) and ¥1,159 million, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

10. 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 ¥44,361 million (\$333 million) and ¥40,182 million for the years ended March 31, 2023 and 2022, respectively, and gain on sales of these assets included in gain on sales of property, plant and equipment under other income amounted to ¥6 million (\$0 million) and ¥22,450 million for the years ended March 31, 2023 and 2022, 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, 2023 and 2022 were as follows:

<i>Millions of yen</i>			
2023			
Carrying value			Fair value
As of April 1, 2022	Net change	As of March 31, 2023	As of March 31, 2023
¥ 386,344	¥ (6,101)	¥ 380,243	¥ 814,342
<i>Millions of yen</i>			
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
<i>Millions of U.S. dollars</i>			
2023			
Carrying value			Fair value
As of April 1, 2022	Net change	As of March 31, 2023	As of March 31, 2023
\$ 2,904	\$ (45)	\$ 2,858	\$ 6,122

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

10. 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, 2023 and 2022 included increase mainly due to acquisitions of real estate properties in the amount of ¥11,424 million (\$85 million) and ¥35,637 million and decrease mainly due to depreciation in the amount of ¥17,196 million (\$129 million) and ¥15,795 million, respectively.
3. The fair value of the main real estate properties is estimated in accordance with appraisal standards for valuing real estate. The fair value of the other real estate properties is based on the carrying value or a different valuation method because those values are considered to reasonably reflect the fair value.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

11. 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, 2023 and 2022 ranged from 0.08% to 0.4% and from 0.002% to 0.36%, respectively.

Long-term debt at March 31, 2023 and 2022 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.001% to 2.49%, due from 2024 through 2072	¥ 959,992	¥ 974,990	\$ 7,217
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.29% to 0.49%, due in installments from 2024 through 2040	25,000	25,000	187
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.07% to 2.15%, due in installments from 2024 through 2057	560,160	613,133	4,211
Finance lease obligations, at rates ranging from 0.00% to 7.13%, due in installments from 2024 through 2051	29,434	31,276	221
Other	11,875	11,875	89
	1,586,462	1,656,275	11,928
Less current portion	(141,420)	(98,420)	(1,063)
	¥ 1,445,041	¥ 1,557,855	\$ 10,864

The aggregate annual maturities of long-term debt subsequent to March 31, 2023 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2024	¥ 141,420	\$ 1,063
2025	138,514	1,041
2026	137,762	1,035
2027	128,463	965
2028	102,167	768
2029 and thereafter	938,141	7,053
	¥ 1,586,470	\$ 11,928

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

11. 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, 2023 and 2022 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Lines of credit	¥ 430,000	¥ 430,000	\$ 3,233
Credit utilized	—	—	—
Available credit	¥ 430,000	¥ 430,000	\$ 3,233

12. Pledged Assets

Assets pledged at March 31, 2023 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2023	
Bank deposits included in cash and deposits	¥ 246	\$ 1
Short-term investments	36	0
Investments in other securities	313	2
Land	128	0
Buildings and structures, net	182	1
Other assets	745	5
	¥ 1,652	\$ 12

The indebtedness secured by such collateral at March 31, 2023 was as follows:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
	2023	
Notes and accounts payable	¥ 19	\$ 0

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

13. Long-Term Payables

Long-term payables at March 31, 2023 and 2022 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2024 through 2052	¥ 98,681	¥ 99,848	\$ 741
Other	—	—	—
	98,681	99,848	741
Less current portion	(1,245)	(1,167)	(9)
	¥ 97,436	¥ 98,681	\$ 732

The aggregate annual maturities of long-term payables subsequent to March 31, 2023 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2024	¥ 1,245	\$ 9
2025	1,327	9
2026	1,416	10
2027	1,510	11
2028	1,611	12
2029 and thereafter	91,570	688
	¥ 98,681	\$ 741

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Income Taxes

The aggregate statutory tax rate applicable to the Company and its consolidated subsidiaries was 30.62% for the years ended March 31, 2023 and 2022.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2023 as a percentage of profit before income taxes is as follows:

	2023
Statutory tax rate	30.62%
Effect of:	
Change in valuation allowance	(60.75)
Per capita portion of inhabitants' taxes	0.94
Permanent non-deductible expenses	0.26
Special credit of corporation tax	(0.25)
Other	0.37
Effective tax rate	<u>(28.81)%</u>

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2022 is omitted because the Group recorded loss before income taxes.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

The significant components of deferred tax assets and liabilities of the Group at March 31, 2023 and 2022 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Deferred tax assets:			
Provision for employees' bonuses	¥ 9,594	¥ 7,769	\$ 72
Accrued enterprise taxes included in income taxes payable	1,696	1,048	12
Liability for retirement benefits	69,169	73,732	520
Unrealized gain on property, plant and equipment	15,002	15,400	112
Tax loss carryforwards	141,125	149,623	1,061
Other	66,224	64,128	497
Total gross deferred tax assets	302,811	311,703	2,276
Valuation allowance related to tax loss carryforwards	(23,914)	(67,994)	(179)
Valuation allowance related to total future deductible temporary differences	(27,555)	(27,420)	(207)
Total valuation allowance (*)	(51,470)	(95,415)	(386)
Total deferred tax assets	251,341	216,288	1,889
Deferred tax liabilities:			
Unrealized holding gain on securities	(925)	(742)	(6)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,450)	(11,829)	(86)
Gain on valuation of assets of consolidated subsidiaries	(1,178)	(1,207)	(8)
Other	(6,365)	(5,689)	(47)
Total deferred tax liabilities	(19,920)	(19,469)	(149)
Deferred tax assets, net	¥ 231,420	¥ 196,818	\$ 1,740

(*) Total valuation allowance decreased by ¥43,944 million (\$330 million) mainly due to the decrease of valuation allowance related to tax loss carryforwards.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

A breakdown of tax loss carryforwards and valuation allowance by expiry date as of March 31, 2023 is as follows:

Year ending March 31,	<i>Millions of yen</i>		
	2023		
	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2024	¥ 3,852	¥ (3,852)	¥ —
2025	197	(197)	—
2026	546	(546)	—
2027	362	(362)	—
2028	22	(22)	—
2029 and thereafter	136,143	(18,932)	117,210
	<u>¥ 141,125</u>	<u>¥ (23,914)</u>	<u>¥ 117,210</u>

Year ending March 31,	<i>Millions of U.S. dollars</i>		
	2023		
	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2024	\$ 28	\$ (28)	\$ —
2025	1	(1)	—
2026	4	(4)	—
2027	2	(2)	—
2028	0	(0)	—
2029 and thereafter	1,023	(142)	881
	<u>\$ 1,061</u>	<u>\$ (179)</u>	<u>\$ 881</u>

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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

15. Leases

Future minimum lease payments subsequent to March 31, 2023 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2024	¥ 3,396	\$ 25
2025 and thereafter	36,223	272
	<u>¥ 39,620</u>	<u>\$ 297</u>

Future minimum lease receipts subsequent to March 31, 2023 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2024	¥ 1,718	\$ 12
2025 and thereafter	20,865	156
	<u>¥ 22,584</u>	<u>\$ 169</u>

16. 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, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Retirement benefit obligations at beginning of year	¥ 250,250	¥ 266,356	\$ 1,881
Service cost	13,595	13,347	102
Interest cost	1,808	1,939	13
Actuarial (gain) loss	(769)	167	(5)
Retirement benefits paid	(27,756)	(31,844)	(208)
Prior service cost	(810)	—	(6)
Reclassification of retirement benefit obligation resulting from change from the Simplified Method	803	27	6
Increase of retirement benefit obligation resulting from change from the Simplified Method	14	248	0
Other	(539)	7	(4)
Retirement benefit obligations at end of year	<u>¥ 236,596</u>	<u>¥ 250,250</u>	<u>\$ 1,778</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

16. Retirement Benefit Plans (continued)

The changes in plan assets, except those for which the Simplified Method was applied during the years ended March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Plan assets at beginning of year	¥ 22,732	¥ 21,332	\$ 170
Expected return on plan assets	382	348	2
Actuarial (loss) gain	(713)	58	(5)
Contributions paid	1,551	1,570	11
Retirement benefits paid	(819)	(577)	(6)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	637	—	4
Plan assets at end of year	¥ 23,771	¥ 22,732	\$ 178

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Liability for retirement benefits at beginning of year	¥ 7,425	¥ 7,210	\$ 55
Retirement benefit expenses	951	873	7
Retirement benefits paid	(740)	(545)	(5)
Contributions paid	(88)	(85)	(0)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	(166)	(27)	(1)
Other	(61)	—	(0)
Liability for retirement benefits at end of year	¥ 7,319	¥ 7,425	\$ 55

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

16. Retirement Benefit Plans (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2023 and 2022 for the Company's and its consolidated subsidiaries' defined benefit pension plans, including those for which the Simplified Method was applied:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Funded retirement benefit obligations	¥ 27,367	¥ 27,027	\$ 205
Plan assets at fair value	(24,037)	(23,513)	(180)
	3,329	3,513	25
Unfunded retirement benefit obligations	216,815	231,429	1,630
Net liability for retirement benefits in the consolidated balance sheet	¥ 220,144	¥ 234,943	\$ 1,655
Liability for retirement benefits	¥ 223,318	¥ 238,077	\$ 1,679
Asset for retirement benefits	(3,173)	(3,134)	(23)
Net liability for retirement benefits in the consolidated balance sheet	¥ 220,144	¥ 234,943	\$ 1,655

The components of retirement benefit expenses for the years ended March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Service cost	¥ 13,595	¥ 13,347	\$ 102
Interest cost	1,808	1,939	13
Expected return on plan assets	(382)	(348)	(2)
Amortization of unrecognized actuarial gain	(1,215)	(1,365)	(9)
Amortization of prior service cost	20	37	0
Increase of retirement benefit obligation resulting from change from the Simplified Method	14	248	0
Retirement benefit expenses calculated by the Simplified Method	951	873	7
Other	(20)	(9)	(0)
Retirement benefit expenses under defined benefit pension plans	¥ 14,770	¥ 14,723	\$ 111

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

16. Retirement Benefit Plans (continued)

The components of retirement benefit liability adjustments included in other comprehensive income (loss) (before tax effects) for the years ended March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Prior service cost	¥ 830	¥ 37	\$ 6
Actuarial loss	(1,159)	(1,474)	(8)
	<u>¥ (328)</u>	<u>¥ (1,436)</u>	<u>\$ (2)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (loss) (before tax effects) as of March 31, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Unrecognized prior service cost	¥ 178	¥ (651)	\$ 1
Unrecognized actuarial loss	(1,923)	(763)	(14)
	<u>¥ (1,744)</u>	<u>¥ (1,415)</u>	<u>\$ (13)</u>

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

16. Retirement Benefit Plans (continued)

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2023 and 2022 were as follows:

	2023	2022
Debt securities	40%	38%
Equity securities	23	22
Other	37	40
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, 2023 and 2022 were principally as follows:

	2023	2022
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, 2023 and 2022 amounted to ¥1,012 million (\$7 million) and ¥741 million, respectively.

17. Contingent Liabilities

At March 31, 2023, 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 ¥72,938 million (\$548 million).

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

18. 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, 2023 and 2022 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Receivables from contracts with customers:			
Notes and accounts receivable	¥ 117,251	¥ 96,330	\$ 881
Others included in prepaid expenses and other current assets	217	208	1
Total	<u>¥ 117,469</u>	<u>¥ 96,539</u>	<u>\$ 883</u>
Contract assets:			
Notes and accounts receivable	¥ 26,426	¥ 16,790	\$ 198
Others included in prepaid expenses and other current assets	15	42	0
Total	<u>¥ 26,441</u>	<u>¥ 16,832</u>	<u>\$ 198</u>
Contract liabilities:			
Deposits and advances received	¥ 44,297	¥ 40,932	\$ 333
Prepaid railway fares received	37,244	30,404	280
Others included in other current liabilities	568	617	4
Total	<u>¥ 82,110</u>	<u>¥ 71,954</u>	<u>\$ 617</u>

19. 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 (\$1,361 million) and ¥181,136 million, and legal reserve included in retained earnings amounted to ¥11,327 million (85 million) and ¥11,327 million at March 31, 2023 and 2022, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

19. Shareholders' Equity (continued)

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2023 and 2022 are summarized as follows:

	Number of shares			March 31, 2023
	April 1, 2022	Increase	Decrease	
Common stock	244,001,600	—	—	244,001,600
Treasury stock	129,719	200,402	14,151	315,970

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

The increase in treasury stock by 200,402 shares was due to the acquisition for appropriation of restricted stock remuneration, the acquisition of treasury stock without a contribution resulting from resignation of directors in the middle of Directors' Terms of Office and the purchase of shares less than one trading unit, by 200,000 shares, 338 shares and 64 shares, respectively.

The decrease in treasury stock by 14,151 shares was due to the disposal of treasury stock as appropriation of restricted stock remuneration.

The increase in common stock by 52,667,100 shares for the year ended March 31, 2022 was due to the capital increase with issuance of new shares.

The increase in treasury stock by 106 shares for the year ended March 31, 2022 was due to the purchase of shares less than one trading unit.

The decrease in treasury stock by 16 shares for the year ended March 31, 2022 was due to the changes in equity in affiliate accounted for by the equity method.

20. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥6,002 million (\$45 million) and ¥4,979 million for the years ended March 31, 2023 and 2022, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

21. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2023 and 2022.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 3,337	¥ (441)	\$ 25
Reclassification adjustments	—	(282)	—
Before tax effect	3,337	(723)	25
Tax effect	(894)	239	(6)
Total	2,442	(484)	18
Net unrealized deferred loss on hedging instruments:			
Amount arising during the year	(18)	—	(0)
Before tax effect	(18)	—	(0)
Tax effect	6	—	0
Total	(12)	—	(0)
Retirement benefit liability adjustments:			
Amount arising during the year	866	(108)	6
Reclassification adjustments	(1,195)	(1,327)	(8)
Before tax effect	(328)	(1,436)	(2)
Tax effect	53	460	0
Total	(275)	(975)	(2)
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	(19)	12	(0)
Reclassification adjustments	(9)	(14)	(0)
Total	(29)	(1)	(0)
Total other comprehensive income (loss)	¥ 2,125	¥ (1,462)	\$ 15

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Amounts per Share

Amounts per share at March 31, 2023 and 2022 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2023	2022	2023
Net assets	¥ 4,245.13	¥ 3,973.15	\$ 31.91
Profit (loss) attributable to owners of parent	363.26	(516.06)	2.73
Cash dividends	125.00	100.00	0.93

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

Profit (loss) attributable to owners of parent per share has been computed based on the profit (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 2023 since the Group recorded loss attributable to owners of parent for the year ended March 31, 2022 and the Company had no potentially dilutive stock at March 31, 2023 and 2022.

The weighted-average number of shares of common stock used to compute profit (loss) attributable to owners of parent per share for the years ended March 31, 2023 and 2022 were 243,708 thousand and 219,350 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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 eight years from March 31, 2023. 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 eight years from March 31, 2023.

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 (22).

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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

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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2023 and 2022 and estimated fair value are shown in the following table.

	<i>Millions of yen</i>		
	2023		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	¥ 1,322	¥ 1,322	¥ –
Trade	199,572	199,572	–
Short-term investments and investments in securities (*2) (*3):			
Investments in affiliates	4,413	4,278	(134)
Other securities	29,345	29,345	–
Total	¥ 234,653	¥ 234,518	¥ (134)
Liabilities:			
Short-term loans	¥ (17,483)	¥ (17,483)	¥ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(3,715)	(3,715)	–
Trade	(183,949)	(183,949)	–
Income taxes payable	(9,992)	(9,992)	–
Accrued expenses	(4,071)	(4,071)	–
Deposits (component of deposits and advances received)	(121,777)	(121,777)	–
Long-term debt (including current portion)	(1,557,028)	(1,504,445)	52,583
Long-term payables (including current portion)	(98,681)	(179,867)	(81,186)
Total	¥ (1,996,719)	¥ (2,025,322)	¥ (28,603)
Derivative transactions:			
Hedge accounting is applied	¥ (18)	¥ (18)	¥ –

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	<i>Millions of yen</i>		
	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) (*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)
Derivative transactions:			
Hedge accounting is applied	¥ –	¥ –	¥ –

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

<i>Millions of U.S. dollars</i>			
2023			
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	\$ 9	\$ 9	\$ –
Trade	1,500	1,500	–
Short-term investments and investments in securities (*2) (*3):			
Investments in affiliates	33	32	(1)
Other securities	220	220	–
Total	\$ 1,764	\$ 1,763	\$ (1)
Liabilities:			
Short-term loans	\$ (131)	\$ (131)	\$ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(27)	(27)	–
Trade	(1,383)	(1,383)	–
Income taxes payable	(75)	(75)	–
Accrued expenses	(30)	(30)	–
Deposits (component of deposits and advances received)	(915)	(915)	–
Long-term debt (including current portion)	(11,706)	(11,311)	395
Long-term payables (including current portion)	(741)	(1,352)	(610)
Total	\$ (15,012)	\$ (15,227)	\$ (215)
Derivative transactions:			
Hedge accounting is applied	¥ (0)	¥ (0)	¥ –

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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, 2023 and 2022 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2023	2022	2023
Investments in securities			
Unlisted stocks	¥ 64,824	¥ 63,838	\$ 487

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) Investments in limited liability partnership and others, which are accounted for based on the equity interest held by the Company, are in accordance with Paragraph 24-16 of the “Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, June 17, 2021) and the information required by Paragraph 4 (1) of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19, March 31, 2020) was not disclosed. The carrying value of these investments in the consolidated balance sheet as of March 31, 2023 amounted to ¥3,433 million (\$25 million).

(*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 as of March 31, 2022.

(*5) Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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, 2023 is as follows:

	<i>Millions of yen</i>		
	2023		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 279,779	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,322	–	–
Trade	199,564	7	0
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	36	5	–
Other securities with maturities (corporate bonds)	–	–	30
Total	¥ 480,702	¥ 13	¥ 30
<i>Millions of U.S. dollars</i>			
	2023		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 2,103	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	9	–	–
Trade	1,500	0	0
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	0	0	–
Other securities with maturities (corporate bonds)	–	–	0
Total	\$ 3,614	\$ 0	\$ 0

The redemption schedules for long-term debt and long-term payables are disclosed in Note 11 and Note 13.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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.

Level 1: Fair value calculated based on adjusted or unadjusted quoted prices in active market for the same asset or liability

Level 2: Fair value calculated based on directly or indirectly observable inputs other than level 1 inputs

Level 3: 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, 2023 and 2022 are as follows:

<i>Millions of yen</i>				
2023				
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	¥ 29,302	¥ 42	¥ –	¥ 29,345
Liabilities:				
Derivative transactions:				
Hedge accounting is applied	–	18	–	18
<i>Millions of yen</i>				
2022				
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	¥ 26,055	¥ –	¥ –	¥ 26,055

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

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

	<i>Millions of U.S. dollars</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	\$ 220	\$ 0	\$ –	\$ 220
Liabilities:				
Derivative transactions:				
Hedge accounting is applied	–	0	–	0

Financial assets and liabilities other than those measured at fair value by level as of March 31, 2023 and 2022 are as follows:

	<i>Millions of yen</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	¥ –	¥ 1,322	¥ –	¥ 1,322
Trade	–	199,572	–	199,572
Short-term investments and investments in securities:				
Investments in affiliates	4,278	–	–	4,278
Total	¥ 4,278	¥ 200,894	¥ –	¥ 205,173
Liabilities:				
Short-term loans	¥ –	¥ 17,483	¥ –	¥ 17,483
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	–	3,715	–	3,715
Trade	–	183,949	–	183,949
Income taxes payable	–	9,992	–	9,992
Accrued expenses	–	4,071	–	4,071
Deposits (component of deposits and advances received)	–	121,777	–	121,777
Long-term debt (including current portion)	900,972	603,472	–	1,504,445
Long-term payables (including current portion)	–	179,867	–	179,867
Total	¥ 900,972	¥ 1,124,331	¥ –	¥ 2,025,304

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

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

	<i>Millions of yen</i>			
	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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

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

	<i>Millions of U.S. dollars</i>			
	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	\$ –	\$ 9	\$ –	\$ 9
Trade	–	1,500	–	1,500
Short-term investments and investments in securities:				
Investments in affiliates	32	–	–	32
Total assets	<u>\$ 32</u>	<u>\$ 1,510</u>	<u>\$ –</u>	<u>\$ 1,542</u>
Liabilities:				
Short-term loans	\$ –	\$ 131	\$ –	\$ 131
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	–	27	–	27
Trade	–	1,383	–	1,383
Income taxes payable	–	75	–	75
Accrued expenses	–	30	–	30
Deposits (component of deposits and advances received)	–	915	–	915
Long-term debt (including current portion)	6,774	4,537	–	11,311
Long-term payables (including current portion)	–	1,352	–	1,352
Total liabilities	<u>\$ 6,774</u>	<u>\$ 8,453</u>	<u>\$ –</u>	<u>\$ 15,227</u>

The above breakdown of “long-term debt (including current portion)” includes bond (including current portion) in the amount of ¥900,972 million (\$6,774 million) at Level 1 and long-term loans (including current portion) in the amount of ¥603,472 million (\$4,537 million) at Level 2.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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.

However, corporate bonds are classified based on certain terms and fair value is calculated using the discounted present value method based on future cash flows and interest rates with assumptions such as yield on government bonds and others with a credit spread, and classified as Level 2.

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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. 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.

Derivative transactions

The fair value of derivative transactions is measured using prices provided by counterparty financial institutions and others. The fair value of derivative transactions for which the allocation method of forward foreign exchange contract and special treatment of interest rate swaps are applied are accounted for together with the underlying hedged long-term payables, and the fair value of these derivative transactions is included in the fair value of the long-term payables, and classified as Level 2.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

24. Derivative Transactions

There were no derivative transactions not qualifying for hedge accounting at March 31, 2023 and 2022.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2023 and 2022 were as follows:

Currency-related transactions

Method of hedge accounting	Description of hedging instruments	Hedged items	<i>Millions of yen</i>		
			2023		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy:				
	Euro	Accounts payable	¥ 55	¥ 11	¥ (0) (*1)
	U.S. dollars	(Forecasted transaction)	387	33	(7) (*1)
	Other		549	163	(10) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy:				
	Euro		3	—	(*2)
	U.S. dollars	Accounts payable	31	—	(*2)
	Other		12	—	(*2)
			¥ 1,039	¥ 208	¥ (18)

Method of hedge accounting	Description of hedging instruments	Hedged items	<i>Millions of U.S. dollars</i>		
			2023		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy:				
	Euro	Accounts payable	\$ 0	\$ 0	\$ (0) (*1)
	U.S. dollars	(Forecasted transaction)	2	0	(0) (*1)
	Other		4	1	(0) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy:				
	Euro		0	—	(*2)
	U.S. dollars	Accounts payable	0	—	(*2)
	Other		0	—	(*2)
			\$ 7	\$ 1	\$ (0)

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

24. Derivative Transactions (continued)

Currency-related transactions (continued)

(*1) The fair value is primarily based on the prices provided by financial institutions.

(*2) Because forward foreign exchange contracts are accounted for as if the exchange rates applied to the forward foreign exchange contracts had originally applied to hedged items, their fair values were included in hedged items.

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

Interest-rate related transactions

			<i>Millions of yen</i>		
			2023		
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	(*)

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

			<i>Millions of U.S. dollars</i>		
			2023		
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	\$ 361	\$ 361	(*)

(*) Because interest rate swap contracts are accounted for as if the interest rates applied to the swaps had originally applied to the long-term loans, their fair values were included in long-term loans.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition

Information on disaggregation of revenue from contracts with customers for the years ended March 31, 2023 and 2022 is as follows:

	Millions of yen						
	2023						
	Transportation						
	Passenger transportation			Sales of goods and food services	Real estate	Other	Total
	Commuter passes	Non-Commuter passes	Other				
Revenue from contracts with customers:	¥ 134,708	¥ 566,750	¥ 43,108	¥ 161,172	¥ 77,816	¥ 299,623	¥1,283,180
Revenue from other sources	—	—	5,749	8,304	92,265	6,031	112,351
Operating revenues from external customers	¥ 134,708	¥ 566,750	¥ 48,858	¥ 169,477	¥ 170,082	¥ 305,654	¥1,395,531
	Millions of yen						
	2022						
	Transportation						
	Passenger transportation			Sales of goods and food services	Real estate	Other	Total
	Commuter passes	Non-Commuter passes	Other				
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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

	Millions of U.S. dollars						
	2023						
	Transportation			Sales of goods and food services	Real estate	Other	total
	Passenger transportation						
	Commuter passes	Non- Commuter passes	Other				
Revenue from contracts with customers:	\$ 1,012	\$ 4,261	\$ 324	\$ 1,211	\$ 585	\$ 2,252	\$ 9,647
Revenue from other sources	—	—	43	62	693	45	844
Operating revenues from external customers	\$ 1,012	\$ 4,261	\$ 367	\$ 1,274	\$ 1,278	\$ 2,298	\$ 10,492

“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,” which includes rental and leasing income of real estate.

Foundational information for understanding revenue from contracts with customers is described in Note 1 (20).

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 years ended March 31, 2023 and 2022 is as follows:

Balances of contract assets and contract liabilities

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	March 31, 2023	April 1, 2022	March 31, 2023
Accounts receivable arising from contracts with customers	¥ 117,469	¥ 96,539	\$ 883
Contract assets	26,441	16,832	198
Contract liabilities	82,110	71,954	617

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

Balances of contract assets and contract liabilities (continued)

	<i>Millions of yen</i>	
	March 31, 2022	April 1, 2021
Accounts receivable arising from contracts with customers	¥ 96,539	¥ 64,835
Contract assets	16,832	18,388
Contract liabilities	71,954	75,418

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, 2023, the amount included in the balance of contract liabilities at the beginning of the year was ¥71,163 million (\$535 million). The main reason for the increase of ¥9,608 million (\$72 million) in contract assets during the year was increases in the rights of the Group to the related consideration for which performance obligations were fulfilled but are not unconditional in the Travel agency business. The main reason for the increase of ¥10,156 million (\$76 million) in contract liabilities during the year was increases in consideration received before fulfillment of performance obligations in the Transportation business.

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. The main reason for the decrease of ¥1,556 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 in contract liabilities during the year was the movement in consideration received before fulfillment of performance obligations in the travel agency business.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. 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:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	March 31, 2023	April 1, 2022	March 31, 2023
Within one year	¥ 81,870	¥ 71,850	\$ 615
More than one year	240	103	1
Total	¥ 82,110	¥ 71,954	\$ 617

	<i>Millions of yen</i>	
	March 31, 2022	April 1, 2021
Within one year	¥ 71,850	¥ 75,128
More than one year	103	289
Total	¥ 71,954	¥ 75,418

26. 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.

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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

Reportable segment information for the years ended March 31, 2023 and 2022 is outlined as follows:

<i>Millions of yen</i>							
2023							
Reportable segments							
	Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal	Elimination and adjustments	Consolidated
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 750,317	¥ 169,477	¥ 170,082	¥ 305,654	¥1,395,531	¥ —	¥ 1,395,531
Intersegment operating revenues or transfers	27,434	4,946	22,648	246,457	301,486	(301,486)	—
Total	<u>¥ 777,751</u>	<u>¥ 174,423</u>	<u>¥ 192,730</u>	<u>¥ 552,111</u>	<u>¥1,697,017</u>	<u>¥(301,486)</u>	<u>¥ 1,395,531</u>
Segment income (loss)	¥ 24,465	¥ 5,655	¥ 36,700	¥ 17,294	¥ 84,116	¥ (145)	¥ 83,970
Segment assets	¥2,168,742	¥ 113,300	¥ 824,131	¥ 571,193	¥3,677,368	¥ 58,139	¥ 3,735,507
Other items:							
Depreciation and amortization	¥ 124,874	¥ 5,722	¥ 26,397	¥ 9,316	¥ 166,311	¥ (6,655)	¥ 159,655
Investment in affiliates accounted for by the equity method	31,433	—	—	15,841	47,274	—	47,274
Increase in property, plant and equipment and intangible assets	171,162	4,198	54,198	6,057	235,617	—	235,617

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

Millions of yen							
2022							
Reportable segments						Elimination and adjustments	Consolidated
Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal			
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	¥ 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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

<i>Millions of U.S. dollars</i>							
2023							
	Reportable segments					Elimination and adjustments	Consolidated
	Transporta- tion	Sales of goods and food services	Real estate	Other	Subtotal		
Operating revenues, income and assets by reportable segments:							
Operating revenues:							
External customers	\$ 5,641	\$ 1,274	\$ 1,278	\$ 2,298	\$ 10,492	\$ –	\$ 10,492
Intersegment operating revenues or transfers	206	37	170	1,853	2,266	(2,266)	–
Total	<u>\$ 5,847</u>	<u>\$ 1,311</u>	<u>\$ 1,449</u>	<u>\$ 4,151</u>	<u>\$ 12,759</u>	<u>\$ (2,266)</u>	<u>\$ 10,492</u>
Segment income	\$ 183	\$ 42	\$ 275	\$ 130	\$ 632	\$ (1)	\$ 631
Segment assets	\$ 16,306	\$ 851	\$ 6,196	\$ 4,294	\$ 27,649	\$ 437	\$ 28,086
Other items:							
Depreciation and amortization	\$ 938	\$ 43	\$ 198	\$ 70	\$ 1,250	\$ (50)	\$ 1,200
Investment in affiliates accounted for by the equity method	236	–	–	119	355	–	355
Increase in property, plant and equipment and intangible assets	1,286	31	407	45	1,771	–	1,771

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. 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 ¥(145 million (\$1 million)) and ¥809 million for the years ended March 31, 2023 and 2022, respectively, were eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥58,139 million (\$437 million) and ¥110,048 million, included corporate assets not allocated to reportable segments of ¥504,558 million (\$3,793 million) and ¥495,646 million, and eliminations of intersegment receivables or payables of (¥446,419 million (\$3,356 million)) and (¥385,597 million) at March 31, 2023 and 2022, respectively.

The adjustments of depreciation and amortization in the amounts of (¥6,655 million (\$50 million)) and (¥6,756 million) for the years ended March 31, 2023 and 2022, respectively, were eliminations of intersegment transactions.

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

Information on each product and service was omitted for the years ended March 31, 2023 and 2022 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, 2023 and 2022 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, 2023 and 2022 because the amounts were immaterial.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

27. 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, 2023, was approved at a meeting of the shareholders of the Company held on June 23, 2023:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥75.0 = U.S.\$0.56 per share)	¥ 18,286	\$ 137

(2) Change in segment classifications

With the creation of the internal Railway Company in the Group effective the year ending March 31, 2024, the Group has changed its segment classifications in order to facilitate steady progress on rebuilding its business portfolio toward the achievement of its long-term vision 2032. Below is the breakdown of amounts for operating revenues and segment income in each reportable segment for the year ended March 31, 2023 following the change in segment classifications.

<i>Millions of yen</i>								
2023								
Reportable segments								
	Mobility	Sales of goods and food services	Real estate	Travel and regional solutions	Other	Subtotal	Eliminations and adjustments	Consolidated
Operating revenues and income by reportable segments:								
Operating revenues:								
External customers	¥ 833,761	¥ 165,907	¥ 204,936	¥ 162,933	¥ 27,991	¥ 1,395,531	¥ –	¥ 1,395,531
Intersegment operating revenues or transfers	39,856	5,013	16,531	1,959	54,546	117,908	(117,908)	–
Total	<u>¥ 873,618</u>	<u>¥ 170,921</u>	<u>¥ 221,467</u>	<u>¥ 164,893</u>	<u>¥ 82,538</u>	<u>¥ 1,513,439</u>	<u>¥ (117,908)</u>	<u>¥ 1,395,531</u>
Segment income	¥ 33,249	¥ 5,493	¥ 34,577	¥ 6,080	¥ 4,538	¥ 83,939	¥ 31	¥ 83,970

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

27. Subsequent Events (continued)

(2) Change in segment classifications (continued)

	Millions of U.S. dollars							
	2023							
	Reportable segments							
	Mobility	Sales of goods and food services	Real estate	Travel and regional solutions	Other	Subtotal	Eliminations and adjustments	Consolidated
Operating revenues and income by reportable segments:								
Operating revenues:								
External customers	\$ 6,268	\$ 1,247	\$ 1,540	\$ 1,225	\$ 210	\$ 10,492	\$ –	\$ 10,492
Intersegment operating revenues or transfers	299	37	124	14	410	886	(886)	–
Total	<u>\$ 6,568</u>	<u>\$ 1,285</u>	<u>\$ 1,665</u>	<u>\$ 1,239</u>	<u>\$ 620</u>	<u>\$ 11,379</u>	<u>\$ (886)</u>	<u>\$ 10,492</u>
Segment income	\$ 249	\$ 41	\$ 259	\$ 45	\$ 34	\$ 631	\$ 0	\$ 631

“Other” involves business segments not included in the reportable segments, such as “advertising business.”

The adjustment of segment income in the amount of ¥31 million (\$0 million) was the elimination of intersegment transactions.

Segment income is reconciled to the operating income figure in the consolidated statements of operations.

A summary of the new segment classifications is as follows:

Mobility segment	The mobility segment includes the passenger transportation business, centered on railway operations, station operations and management, cleaning and maintenance, construction, machinery and equipment installation, rolling stock and other facility construction, and electric works.
Sales of goods and food services segment	The sales of goods and food services segment engages in sales of goods and food services, department stores, and other wholesale operations.
Real estate segment	The real estate segment covers the real estate sales and leasing business, as well as shopping center and hotel operations.
Travel and regional solutions segment	The travel and regional solutions segment encompass travel agencies and regional solutions.
Other segment	The other segment includes the advertising business, etc.