

Consolidated Financial Statements

West Japan Railway Company

*Year ended March 31, 2024
with Independent Auditor's Report*

West Japan Railway Company

Consolidated Financial Statements

Year ended March 31, 2024

Contents

Consolidated Financial Statements

Independent Auditor's Report	1
Consolidated Balance Sheet	6
Consolidated Statement of Operations	8
Consolidated Statement of Comprehensive Income	9
Consolidated Statement of Changes in Net Assets	10
Consolidated Statement of Cash Flows	13
Notes to Consolidated Financial Statements	15

Independent Auditor's Report

The Board of Directors
West Japan Railway Company

The Audit of the Consolidated Financial Statements

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, 2024, 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, 2024, 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 Mobility segment recorded by West Japan Railway Company (the "Company") and its consolidated subsidiaries for the year ended March 31, 2024 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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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, 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 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.

Fee-related Information

The fees for the audits of the financial statements of West Japan Railway Company and its subsidiaries and other services provided by us and other EY member firms for the year ended March 31, 2024 are 419 million yen and 243 million yen, respectively.

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.

Ernst & Young ShinNihon LLC
Osaka, Japan

August 9, 2024

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, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2024	2023	2024
Assets			
Current assets:			
Cash and deposits (<i>Notes 5, 12 and 23</i>)	¥ 233,465	¥ 290,138	\$ 1,546
Short-term investments (<i>Notes 6, 12 and 23</i>)	—	36	—
Notes and accounts receivable (<i>Notes 18 and 23</i>):			
Unconsolidated subsidiaries and affiliates	2,614	1,351	17
Trade	226,592	203,056	1,500
Less allowance for doubtful accounts	(537)	(1,616)	(3)
Inventories (<i>Note 7</i>)	160,631	153,234	1,063
Prepaid expenses and other current assets (<i>Note 18</i>)	78,197	70,330	517
Total current assets	700,963	716,532	4,642
Investments:			
Unconsolidated subsidiaries and affiliates (<i>Notes 8 and 23</i>)	72,303	66,426	478
Other securities (<i>Notes 6, 12 and 23</i>)	55,628	35,554	368
Total investments	127,931	101,980	847
Property, plant and equipment, at cost (<i>Notes 9, 10 and 12</i>):			
Land	806,288	782,965	5,339
Buildings and structures	3,688,880	3,668,413	24,429
Machinery, equipment and vehicles	1,741,372	1,717,933	11,532
Tools, furniture and fixtures	193,067	188,569	1,278
Construction in progress	122,667	117,193	812
	6,552,275	6,475,076	43,392
Less accumulated depreciation	(3,918,851)	(3,893,871)	(25,952)
Property, plant and equipment, net	2,633,423	2,581,205	17,439
Deferred income taxes (<i>Notes 14</i>)	207,161	232,895	1,371
Asset for retirement benefits (<i>Note 16</i>)	4,564	3,173	30
Other assets (<i>Note 12</i>)	103,681	99,052	686
Total other assets	315,407	335,121	2,088
Deferred assets			
Share issuance costs	196	668	1
Total deferred assets	196	668	1
Total assets (<i>Note 26</i>)	¥ 3,777,923	¥ 3,735,507	\$ 25,019

West Japan Railway Company

Consolidated Balance Sheet (continued)

As of March 31, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2024	2023	2024
Liabilities and net assets			
Current liabilities:			
Short-term loans (<i>Notes 11 and 23</i>)	¥ 19,298	¥ 17,483	\$ 127
Current portion of long-term debt (<i>Notes 11, 23 and 24</i>)	139,223	141,420	922
Current portion of long-term payables (<i>Notes 13 and 23</i>)	1,327	1,245	8
Notes and accounts payable (<i>Notes 12, 18, 23 and 24</i>):			
Unconsolidated subsidiaries and affiliates	3,813	3,715	25
Trade	219,068	183,949	1,450
Prepaid railway fares received (<i>Note 18</i>)	38,339	37,244	253
Deposits and advances received (<i>Note 23</i>)	172,751	165,829	1,144
Accrued expenses (<i>Note 23</i>)	32,055	33,234	212
Income taxes payable (<i>Notes 14 and 23</i>)	10,139	9,992	67
Provision for employees' bonuses	36,251	29,540	240
Provision for customer point programs	143	706	0
Provision for loss on disaster	2,575	396	17
Other current liabilities (<i>Note 18</i>)	35,186	33,704	233
Total current liabilities	710,175	658,464	4,703
Long-term liabilities:			
Long-term debt (<i>Notes 11, 23 and 24</i>)	1,349,545	1,445,041	8,937
Long-term payables (<i>Notes 13 and 23</i>)	96,108	97,436	636
Liability for retirement benefits (<i>Note 16</i>)	211,647	223,318	1,401
Provision for large-scale renovation of Shinkansen infrastructure	33,333	29,166	220
Provision for environmental safety measures	2,255	3,414	14
Provision for loss on railway line liquidation	30,292	15,794	200
Deferred income taxes (<i>Notes 14</i>)	1,807	1,474	11
Other long-term liabilities	117,795	117,087	780
Total long-term liabilities	1,842,786	1,932,733	12,203
Contingent liabilities (<i>Note 17</i>)			
Net assets:			
Shareholders' equity (<i>Note 19</i>):			
Common stock			
Authorized – 800,000,000 shares at March 31, 2024 and 2023			
Issued and outstanding – 244,001,600 and 244,001,600 shares at March 31, 2024 and 2023	226,136	226,136	1,497
Capital surplus	183,939	183,904	1,218
Retained earnings (<i>Note 27</i>)	692,468	626,108	4,585
Less treasury stock, at cost – 291,853 and 315,970 shares at March 31, 2024 and 2023	(1,262)	(1,378)	(8)
Total shareholders' equity	1,101,282	1,034,772	7,293
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	6,569	1,061	43
Net unrealized deferred gain (loss) on hedging instruments	130	(9)	0
Retirement benefits liability adjustments (<i>Note 16</i>)	(2,087)	(1,347)	(13)
Total accumulated other comprehensive income (loss)	4,613	(295)	30
Non-controlling interests	119,064	109,832	788
Total net assets	1,224,961	1,144,309	8,112
Total liabilities and net assets	¥ 3,777,923	¥ 3,735,507	\$ 25,019

Note: Although the Company implemented a 2-for-1 common stock split on April 1, 2024, the number of “Authorized shares”, “Issued shares” and “Treasury stock” before the split is shown. Share information after the split is as follows.

Authorized shares as of March 31, 2024: 1,600,000,000 shares

Issued shares as of March 31, 2024: 488,003,200 shares

Treasury stock as of March 31, 2024: 583,706 shares

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Operations

Year ended March 31, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2024	2023	2024
Operating revenues (<i>Notes 10 and 26</i>)	¥ 1,635,023	¥ 1,395,531	\$ 10,827
Operating expenses:			
Transportation, other services and cost of sales (<i>Note 10</i>)	1,239,576	1,126,833	8,209
Selling, general and administrative expenses (<i>Note 20</i>)	215,698	184,727	1,428
	<u>1,455,275</u>	<u>1,311,560</u>	<u>9,637</u>
Operating income (<i>Note 26</i>)	179,748	83,970	1,190
Other income (expenses):			
Interest and dividend income	937	1,039	6
Interest expense	(20,101)	(20,816)	(133)
Equity in earnings of affiliates	1,379	1,099	9
Gain on contributions received for construction (<i>Note 9</i>)	17,105	65,983	113
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment (<i>Note 9</i>)	(16,310)	(63,493)	(108)
Gain on sales of property, plant and equipment (<i>Note 10</i>)	4,066	7,262	26
Loss on sales of property, plant and equipment	(472)	(78)	(3)
Increase in provision for loss on railway line liquidation	(15,000)	—	(99)
Reversal of allowance for doubtful accounts	998	1,708	6
Loss on devaluation of investments in securities (<i>Note 6</i>)	(838)	(696)	(5)
Other, net (<i>Note 10</i>)	(6,331)	(3,105)	(41)
	<u>(34,566)</u>	<u>(11,097)</u>	<u>(228)</u>
Profit before income taxes	145,182	72,873	961
Income taxes (<i>Note 14</i>):			
Current	17,102	14,429	113
Deferred	23,700	(35,426)	156
	<u>40,803</u>	<u>(20,997)</u>	<u>270</u>
Profit	104,379	93,871	691
Profit attributable to non-controlling interests	5,617	5,342	37
Profit attributable to owners of parent	<u>¥ 98,761</u>	<u>¥ 88,528</u>	<u>\$ 654</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Comprehensive Income

Year ended March 31, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Profit	¥ 104,379	¥ 93,871	\$ 691
Other comprehensive income (Note 21):			
Net unrealized holding gain on securities	5,794	2,442	38
Net unrealized deferred gain (loss) on hedging instruments	143	(12)	0
Retirement benefit liability adjustments (Note 16)	(373)	(275)	(2)
Other comprehensive gain (loss) of affiliates accounted for by the equity method attributable to owners of parent	109	(29)	0
Total other comprehensive income	<u>5,673</u>	<u>2,125</u>	<u>37</u>
Total comprehensive income	<u>¥ 110,052</u>	<u>¥ 95,996</u>	<u>\$ 728</u>

Comprehensive income attributable to owners of parent and non-controlling interests for the years ended March 31, 2024 and 2023 are as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Comprehensive income attributable to owners of parent	¥ 103,670	¥ 90,635	\$ 686
Comprehensive income attributable to non-controlling interests	6,382	5,361	42

West Japan Railway Company

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2024

	<i>Millions of yen</i>				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2022	¥ 226,136	¥ 183,812	¥ 561,874	¥ (482)	¥ 971,341
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 April 1, 2023	¥ 226,136	¥ 183,904	¥ 626,108	¥ (1,378)	¥ 1,034,772
Cash dividends	—	—	(32,306)	—	(32,306)
Profit attributable to owners of parent	—	—	98,761	—	98,761
Change in scope of consolidation	—	—	(96)	—	(96)
Increase due to merger	—	—	1	—	1
Purchase of treasury stock	—	—	—	(1)	(1)
Disposal of treasury stock	—	30	—	117	147
Increase due to purchase of shares of a consolidated subsidiary	—	5	—	—	5
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2024	¥ 226,136	¥ 183,939	¥ 692,468	¥ (1,262)	¥ 1,101,282

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2024

Millions of yen

	Net unrealized holding (loss) gain on securities	Net unrealized deferred (loss) gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Non- controlling interests	Total net assets
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
Cash dividends	—	—	—	—	—	(32,306)
Profit attributable to owners of parent	—	—	—	—	—	98,761
Change in scope of consolidation	—	—	—	—	—	(96)
Increase due to merger	—	—	—	—	—	1
Purchase of treasury stock	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	—	147
Increase due to purchase of shares of a consolidated subsidiary	—	—	—	—	—	5
Net changes in items other than shareholders' equity	5,508	140	(740)	4,908	9,232	14,141
Balance at March 31, 2024	¥ 6,569	¥ 130	¥ (2,087)	¥ 4,613	¥ 119,064	¥ 1,224,961

West Japan Railway Company

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2024

Millions of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2023	\$ 1,497	\$ 1,217	\$ 4,146	\$ (9)	\$ 6,852
Cash dividends	—	—	(213)	—	(213)
Profit attributable to owners of parent	—	—	654	—	654
Change in scope of consolidation	—	—	(0)	—	(0)
Increase due to merger	—	—	0	—	0
Purchase of treasury stock	—	—	—	(0)	(0)
Disposal of treasury stock	—	0	—	0	0
Increase due to purchase of shares of a consolidated subsidiary	—	0	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2024	<u>\$ 1,497</u>	<u>\$ 1,218</u>	<u>\$ 4,585</u>	<u>\$ (8)</u>	<u>\$ 7,293</u>

Millions of U.S. dollars (Note 1)

	Net unrealized holding (loss) gain on securities	Net unrealized deferred (loss) gain on hedging instruments	Retirement benefits liability adjustments	Total accumulated other comprehensive (loss) income	Non- controlling interests	Total net assets
Balance at April 1, 2023	\$ 7	\$ (0)	\$ (8)	\$ (1)	\$ 727	\$ 7,578
Cash dividends	—	—	—	—	—	(213)
Profit attributable to owners of parent	—	—	—	—	—	654
Change in scope of consolidation	—	—	—	—	—	(0)
Increase due to merger	—	—	—	—	—	0
Purchase of treasury stock	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	—	—	0
Increase due to purchase of shares of a consolidated subsidiary	—	—	—	—	—	0
Net changes in items other than shareholders' equity	36	0	(4)	32	61	93
Balance at March 31, 2024	<u>\$ 43</u>	<u>\$ 0</u>	<u>\$ (13)</u>	<u>\$ 30</u>	<u>\$ 788</u>	<u>\$ 8,112</u>

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Consolidated Statement of Cash Flows

Year ended March 31, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2024	2023	2024
Cash flows from operating activities			
Profit before income taxes	¥ 145,182	¥ 72,873	\$ 961
Adjustments for:			
Depreciation and amortization	163,322	159,655	1,081
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	16,310	63,493	108
Loss on disposal of property, plant and equipment	5,601	5,228	37
Gain on sales of property, plant and equipment	(3,594)	(7,184)	(23)
Decrease in liability for retirement benefits	(13,459)	(15,416)	(89)
Decrease in allowance for doubtful accounts	(1,533)	(147)	(10)
Increase in provision for employees' bonuses	6,705	6,055	44
Increase in provision for large-scale renovation of Shinkansen infrastructure	4,166	4,166	27
Increase (Decrease) in other accruals	14,806	(4,089)	98
Interest and dividend income	(937)	(1,039)	(6)
Interest expense	20,101	20,816	133
Equity in earnings of affiliates	(1,379)	(1,099)	(9)
Gain on contributions received for construction	(17,105)	(65,983)	(113)
Increase in notes and accounts receivable	(9,117)	(37,305)	(60)
Increase in inventories	(6,492)	(3,364)	(42)
Increase in notes and accounts payable	24,688	55,335	163
Increase in consumption taxes payable, net	1,837	15,073	12
Other	5,500	37,883	36
Subtotal	354,603	304,952	2,348
Interest and dividend received	934	1,033	6
Interest paid	(19,939)	(20,633)	(132)
Income taxes paid	(17,283)	(11,388)	(114)
Net cash provided by (used in) operating activities	¥ 318,314	¥ 273,964	\$ 2,108

West Japan Railway Company

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2024

	<i>Millions of yen</i>		<i>Millions of U.S. dollars (Note 1)</i>
	2024	2023	2024
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets in other assets	¥ (249,352)	¥ (246,013)	\$ (1,651)
Proceeds from sales of property, plant and equipment	4,964	11,389	32
Contributions received for construction	23,325	28,920	154
Purchases of investments in securities	(22,327)	(2,375)	(147)
Proceeds from sales of investments in securities	1,422	700	9
Net decrease (increase) in loans receivable	3,561	(1,304)	23
Other	(5,245)	(6,218)	(34)
Net cash used in investing activities	(243,651)	(214,902)	(1,613)
Cash flows from financing activities			
Net increase in short-term loans	1,508	1,217	9
Proceeds from long-term loans	39,500	18,600	261
Repayments of long-term loans	(39,550)	(71,572)	(261)
Proceeds from issuance of bonds	—	10,000	—
Redemption of bonds	(100,000)	(25,000)	(662)
Payment of long-term payables	(1,245)	(1,167)	(8)
Purchases of treasury stock	(1)	(963)	(0)
Cash dividends paid to owners of parent	(32,290)	(24,400)	(213)
Cash dividends paid to non-controlling interests	(300)	(235)	(1)
Other	759	4,756	5
Net cash used in financing activities	(131,620)	(88,765)	(871)
Net decrease in cash and cash equivalents	(56,956)	(29,703)	(377)
Cash and cash equivalents at beginning of year	289,893	319,596	1,919
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	282	—	1
Cash and cash equivalents at end of year (Note 5)	¥ 233,218	¥ 289,893	\$ 1,544

See accompanying notes to consolidated financial statements.

West Japan Railway Company

Notes to Consolidated Financial Statements

March 31, 2024

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 ¥151= U.S. \$1.00, the exchange rate prevailing on March 31, 2024. 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

For the year ended March 31, 2024, 61 subsidiaries were consolidated.

For the year ended March 31, 2024, 5 affiliates were accounted for by the equity method.

Investments in unconsolidated subsidiaries and other affiliates are stated mainly at moving-average cost since their equity earnings in the aggregate are not material in relation to consolidated net income and retained earnings.

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.

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)

(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.

(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).

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)

(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

Bond issuance costs are charged to income as incurred.

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.

(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.

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)

(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" and the "Noto Peninsula Earthquake of 2024."

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.

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)

(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).

In addition, provision for loss on railway line liquidation is provided, at a reasonably estimated amount, for expected expenditures corresponding to the contribution to the Johana Line and Himi Line Railway Operations Redevelopment Plan.

(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:

Mobility Business

In the mobility 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.

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)

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).

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 and regional solutions business

In the travel and regional solutions 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 Group determines the performance obligation is satisfied and recognizes revenue when the customer makes reservations and tickets are issued or over the period of the travel.

In addition, the Group is engaged in consignment businesses involving public relations offices and local governments, and is obligated to provide customers with tourism attraction projects, economic measures projects and various administrative operations.

The Group determines the performance obligation is satisfied and recognizes revenue over the period of the contract with each customer.

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.

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)

(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.

(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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

2. 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.

(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.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

3. Change in Method of Presentation

(Consolidated statements of operations)

From the year ended March 31, 2024, the Group has included “Employment adjustment subsidies” in “Other, net” of “Other Income (Expenses)” because its monetary significance was immaterial. To reflect this change in method of presentation, in the consolidated statements of operations for the year ended March 31, 2023, the Group has included ¥1,854 million of Employment adjustment subsidies” in “Other, net” of “Other Income (Expenses)” that was previously separately presented.

4. Additional Information

Contribution to Johana Line and Himi Line Railway Operations Redevelopment Plan

On February 8, 2024, the Minister of Land, Infrastructure, Transport and Tourism approved the Johana Line and Himi Line Railway Operations Redevelopment Plan based on the Regional Transportation Act, which was submitted in December 2023 for the Johana Line (Takaoka-Johana) and Himi Line (Takaoka-Himi) sections operated by the Company.

Under this plan, the operator of the Johana Line and Himi Line will change from the Company to Ainokaze Toyama Railway, and as stipulated in the plan, the Company will contribute ¥15.0 billion (\$99 million) as funds necessary for the plan’s implementation. As a result, the Company has recorded ¥15.0 billion (\$99 million) as an other expense (provision for loss on line liquidation) for the year ended March 31, 2024.

5. Cash and Cash Equivalents

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at March 31, 2024 and 2023 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>
	2024	2023	2024
Cash and deposits	¥ 233,465	¥ 290,138	\$ 1,546
Time deposits with original maturities in excess of three months included in cash and deposits	(246)	(245)	(1)
Cash and cash equivalents	<u>¥ 233,218</u>	<u>¥ 289,893</u>	<u>\$ 1,544</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, 2024 and 2023. 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, 2024 and 2023 are summarized as follows:

	<i>Millions of yen</i>					
	2024			2023		
	Carrying value	Acquisition costs	Difference	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 17,932	¥ 7,225	¥ 10,706	¥ 12,619	¥ 6,961	¥ 5,658
Debt securities:						
Government bonds	5	5	0	41	41	0
Corporate bonds	41	33	8	42	33	9
Subtotal	17,979	7,264	10,715	12,704	7,036	5,667
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	19,582	21,216	(1,634)	16,641	21,457	(4,816)
Other	500	500	—	—	—	—
Subtotal	20,082	21,716	(1,634)	16,641	21,457	(4,816)
Total	¥ 38,062	¥ 28,981	¥ 9,081	¥ 29,345	¥ 28,494	¥ 850

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>		
	2024		
	Carrying value	Acquisition costs	Difference
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$ 118	\$ 47	\$ 70
Debt securities:			
Government bonds	0	0	0
Corporate bonds	0	0	0
Subtotal	119	48	70
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	129	140	(10)
Other	3	3	–
Subtotal	132	143	(10)
Total	\$ 252	\$ 191	\$ 60

7. Inventories

Inventories at March 31, 2024 and 2023 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Merchandise and real estate for sale	¥ 32,875	¥ 32,472	\$ 217
Work in progress	103,725	98,497	686
Rails, materials and supplies	24,030	22,264	159
	¥ 160,631	¥ 153,234	\$ 1,063

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, 2024 and 2023 consisted of the following:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Investments in:			
Unconsolidated subsidiaries	¥ 21,485	¥ 18,411	\$ 142
Affiliates	50,818	48,014	336
	<u>¥ 72,303</u>	<u>¥ 66,426</u>	<u>\$ 478</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, 2024 and 2023 amounted to ¥787,000 million (\$5,211 million) and ¥830,532 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, 2024 and 2023 amounted to ¥3,992 million (\$26 million) and ¥1,379 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 ¥45,271 million (\$299 million) and ¥44,361 million for the years ended March 31, 2024 and 2023, 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 for the year ended March 31, 2023 while there was no corresponding gain on sales of these assets for the year ended March 31, 2024, recognized 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, 2024 and 2023 were as follows:

<i>Millions of yen</i>			
2024			
Carrying value			Fair value
As of April 1, 2023	Net change	As of March 31, 2024	As of March 31, 2024
¥ 380,243	¥ 75,408	¥ 455,651	¥ 921,838
<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 U.S. dollars</i>			
2024			
Carrying value			Fair value
As of April 1, 2023	Net change	As of March 31, 2024	As of March 31, 2024
\$ 2,518	\$ 499	\$ 3,017	\$ 6,104

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, 2024 and 2023 included increase mainly due to acquisitions of real estate properties in the amount of ¥93,014 million (\$615 million) and ¥11,424 million and decrease mainly due to depreciation in the amount of ¥17,406 million (\$115 million) and ¥17,196 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, 2024 and 2023 ranged from 0.08% to 0.44% and from 0.08% to 0.4%, respectively.

Long-term debt at March 31, 2024 and 2023 is summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Unsecured West Japan Railway bonds, payable in yen, at rates ranging from 0.001% to 2.49%, due from 2025 through 2072	¥ 859,994	¥ 959,992	\$ 5,695
Unsecured loans from the Development Bank of Japan, payable in yen, at rates ranging from 0.29% to 0.49%, due in installments from 2025 through 2040	25,000	25,000	165
Unsecured loans from banks and insurance companies, payable in yen, at rates ranging from 0.07% to 2.15%, due in installments from 2025 through 2057	560,110	560,160	3,709
Finance lease obligations, at rates ranging from 0.00% to 7.13%, due in installments from 2025 through 2051	31,789	29,434	210
Other	11,875	11,875	78
	1,488,768	1,586,462	9,859
Less current portion	(139,223)	(141,420)	(922)
	¥ 1,349,545	¥ 1,445,041	\$ 8,937

The aggregate annual maturities of long-term debt subsequent to March 31, 2024 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2025	¥ 139,223	\$ 922
2026	138,958	920
2027	129,665	858
2028	103,374	684
2029	105,879	701
2030 and thereafter	871,672	5,772
	¥ 1,488,774	\$ 9,859

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, 2024 and 2023 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Lines of credit	¥ 130,000	¥ 430,000	\$ 860
Credit utilized	—	—	—
Available credit	¥ 130,000	¥ 430,000	\$ 860

12. Pledged Assets

Assets pledged at March 31, 2024 and 2023 as collateral for indebtedness are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Bank deposits included in cash and deposits	¥ 246	¥ 246	\$ 1
Short-term investments	—	36	—
Investments in other securities	346	313	2
Land	128	128	0
Buildings and structures, net	175	182	1
Other assets	791	745	5
	¥ 1,688	¥ 1,652	\$ 11

The indebtedness secured by such collateral at March 31, 2024 and 2023 was as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Notes and accounts payable	¥ 53	¥ 19	\$ 0

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

13. Long-Term Payables

Long-term payables at March 31, 2024 and 2023 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Unsecured payables to the Japan Railway Construction, Transport & Technology Agency:			
Fixed interest portion at 6.55% due in installments from 2025 through 2052	¥ 97,436	¥ 98,681	\$ 645
Other	—	—	—
	97,436	98,681	645
Less current portion	(1,327)	(1,245)	(8)
	¥ 96,108	¥ 97,436	\$ 636

The aggregate annual maturities of long-term payables subsequent to March 31, 2024 are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2025	¥ 1,327	\$ 8
2026	1,416	9
2027	1,510	10
2028	1,611	10
2029	1,718	11
2030 and thereafter	89,852	595
	¥ 97,436	\$ 645

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, 2024 and 2023.

A reconciliation of the statutory tax rate and effective tax rate for the year ended March 31, 2024 and 2023 as a percentage of profit before income taxes is as follows:

	2024	2023
Statutory tax rate	30.62%	30.62%
Effect of:		
Change in valuation allowance	(2.69)	(60.75)
Per capita portion of inhabitants' taxes	0.45	0.94
Permanent non-deductible expenses	0.95	0.26
Special credit of corporation tax	(0.50)	(0.25)
Other	(0.73)	0.37
Effective tax rate	28.10%	(28.81)%

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, 2024 and 2023 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Deferred tax assets:			
Provision for employees' bonuses	¥ 11,909	¥ 9,594	\$ 78
Accrued enterprise taxes included in income taxes payable	1,735	1,696	11
Liability for retirement benefits	64,872	69,169	429
Unrealized gain on property, plant and equipment	15,167	15,002	100
Tax loss carryforwards	104,039	141,125	689
Other	72,393	66,224	479
Total gross deferred tax assets	270,119	302,811	1,788
Valuation allowance related to tax loss carryforwards	(16,952)	(23,914)	(112)
Valuation allowance related to total future deductible temporary differences	(25,330)	(27,555)	(167)
Total valuation allowance (*)	(42,282)	(51,470)	(280)
Total deferred tax assets	227,836	251,341	1,508
Deferred tax liabilities:			
Unrealized holding gain on securities	(3,001)	(925)	(19)
Contributions received for construction deducted from acquisition costs of property, plant and equipment	(11,558)	(11,450)	(76)
Gain on valuation of assets of consolidated subsidiaries	(1,168)	(1,178)	(7)
Other	(6,753)	(6,365)	(44)
Total deferred tax liabilities	(22,482)	(19,920)	(148)
Deferred tax assets, net	¥ 205,354	¥ 231,420	\$ 1,359

(*) Total valuation allowance decreased by ¥9,188 million (\$60 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, 2024 and 2023 is as follows:

Year ending March 31,	<i>Millions of yen</i>		
	2024		
	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2025	¥ 197	¥ –	¥ 197
2026	546	(434)	111
2027	362	(362)	–
2028	–	–	–
2029	22	(22)	–
2030 and thereafter	102,910	(16,132)	86,778
	<u>¥ 104,039</u>	<u>¥ (16,952)</u>	<u>¥ 87,087</u>

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>		
	2024		
	Tax loss carryforwards	Valuation allowance	Deferred tax assets
2025	\$ 1	\$ –	\$ 1
2026	3	(2)	0
2027	2	(2)	–
2028	–	–	–
2029	0	(0)	–
2030 and thereafter	681	(106)	574
	<u>\$ 689</u>	<u>\$ (112)</u>	<u>\$ 576</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, 2024 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2025	¥ 2,729	\$ 18
2026 and thereafter	34,499	228
	<u>¥ 37,228</u>	<u>\$ 246</u>

Future minimum lease receipts subsequent to March 31, 2024 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
2025	¥ 2,084	\$ 13
2026 and thereafter	29,754	197
	<u>¥ 31,839</u>	<u>\$ 210</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, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Retirement benefit obligations at beginning of year	¥ 236,596	¥ 250,250	\$ 1,566
Service cost	13,688	13,595	90
Interest cost	1,743	1,808	11
Actuarial loss (gain)	658	(769)	4
Retirement benefits paid	(26,466)	(27,756)	(175)
Prior service cost	—	(810)	—
Reclassification of retirement benefit obligation resulting from change from the Simplified Method	—	803	—
Increase of retirement benefit obligation resulting from change from the Simplified Method	—	14	—
Other	—	(539)	—
Retirement benefit obligations at end of year	<u>¥ 226,220</u>	<u>¥ 236,596</u>	<u>\$ 1,498</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, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Plan assets at beginning of year	¥ 23,771	¥ 22,732	\$ 157
Expected return on plan assets	389	382	2
Actuarial gain (loss)	1,640	(713)	10
Contributions paid	1,706	1,551	11
Retirement benefits paid	(891)	(819)	(5)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	—	637	—
Plan assets at end of year	¥ 26,616	¥ 23,771	\$ 176

The changes in liability for retirement benefits for which the Simplified Method was applied during the years ended March 31, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Liability for retirement benefits at beginning of year	¥ 7,319	¥ 7,425	\$ 48
Retirement benefit expenses	927	951	6
Retirement benefits paid	(746)	(740)	(4)
Contributions paid	(21)	(88)	(0)
Reclassification of liability for retirement benefits resulting from change from the Simplified Method	—	(166)	—
Other	—	(61)	—
Liability for retirement benefits at end of year	¥ 7,479	¥ 7,319	\$ 49

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, 2024 and 2023 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>
	2024	2023	2024
Funded retirement benefit obligations	¥ 27,805	¥ 27,367	\$ 184
Plan assets at fair value	(26,878)	(24,037)	(178)
	927	3,329	6
Unfunded retirement benefit obligations	206,156	216,815	1,365
Net liability for retirement benefits in the consolidated balance sheet	¥ 207,083	¥ 220,144	\$ 1,371
Liability for retirement benefits	¥ 211,647	¥ 223,318	\$ 1,401
Asset for retirement benefits	(4,564)	(3,173)	(30)
Net liability for retirement benefits in the consolidated balance sheet	¥ 207,083	¥ 220,144	\$ 1,371

The components of retirement benefit expenses for the years ended March 31, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Service cost	¥ 13,688	¥ 13,595	\$ 90
Interest cost	1,743	1,808	11
Expected return on plan assets	(389)	(382)	(2)
Amortization of unrecognized actuarial gain	(1,440)	(1,215)	(9)
Amortization of prior service cost	(134)	20	(0)
Increase of retirement benefit obligation resulting from change from the Simplified Method	—	14	—
Retirement benefit expenses calculated by the Simplified Method	927	951	6
Other	(9)	(20)	(0)
Retirement benefit expenses under defined benefit pension plans	¥ 14,385	¥ 14,770	\$ 95

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 (before tax effects) for the years ended March 31, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Prior service cost	¥ (134)	¥ 830	\$ (0)
Actuarial loss	(457)	(1,159)	(3)
	¥ (592)	¥ (328)	\$ (3)

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effects) as of March 31, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Unrecognized prior service cost	¥ 44	¥ 178	\$ 0
Unrecognized actuarial loss	(2,381)	(1,923)	(15)
	¥ (2,336)	¥ (1,744)	\$ (15)

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, 2024 and 2023 were as follows:

	2024	2023
Debt securities	40%	40%
Equity securities	27	23
Other	33	37
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, 2024 and 2023 were principally as follows:

	2024	2023
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, 2024 and 2023 amounted to ¥1,104 million (\$7 million) and ¥1,012 million, respectively.

17. Contingent Liabilities

At March 31, 2024, 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 ¥70,104 million (\$464 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, 2024 and 2023 were as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Receivables from contracts with customers:			
Notes and accounts receivable	¥ 129,628	¥ 117,251	\$ 858
Others included in prepaid expenses and other current assets	480	217	3
Total	<u>¥ 130,108</u>	<u>¥ 117,469</u>	<u>\$ 861</u>
Contract assets:			
Notes and accounts receivable	¥ 17,927	¥ 26,426	\$ 118
Others included in prepaid expenses and other current assets	18	15	0
Total	<u>¥ 17,945</u>	<u>¥ 26,441</u>	<u>\$ 118</u>
Contract liabilities:			
Deposits and advances received	¥ 44,505	¥ 44,297	\$ 294
Prepaid railway fares received	38,339	37,244	253
Others included in other current liabilities	598	568	3
Total	<u>¥ 83,444</u>	<u>¥ 82,110</u>	<u>\$ 552</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 (\$1,199 million) and ¥181,136 million, and legal reserve included in retained earnings amounted to ¥11,327 million (\$75 million) and ¥11,327 million at March 31, 2024 and 2023, respectively.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

19. Shareholders' Equity (continued)

Common stock and treasury stock

Movements in treasury stock during the years ended March 31, 2024 and 2023 are summarized as follows:

	Number of shares			March 31, 2024
	April 1, 2023	Increase	Decrease	
Common stock	244,001,600	—	—	244,001,600
Treasury stock	315,970	252	24,369	291,853

	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

The company implemented a 2-for-1 common stock split on April 1, 2024. The number of shares presented above is based on the number of shares before the stock split.

The increase in treasury stock by 252 shares for the year ended March 31, 2024 was due to the purchase of shares less than one trading unit.

The decrease in treasury stock by 24,369 shares for the year ended March 31, 2024 was due to the disposal of treasury stock as appropriation of restricted stock remuneration and the sale of shares less than one trading unit, by 24,286 shares and 83 shares, respectively.

The increase in treasury stock by 200,402 shares for the year ended March 31, 2023 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 for the year ended March 31, 2023 due to the disposal of treasury stock as appropriation of restricted stock remuneration.

20. Research and Development Costs

Research and development costs are expensed in the year in which such costs are incurred. These amounted to ¥7,628 million (\$50 million) and ¥6,002 million for the years ended March 31, 2024 and 2023, 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, 2024 and 2023.

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 8,320	¥ 3,337	\$ 55
Reclassification adjustments	(5)	—	(0)
Before tax effect	8,314	3,337	55
Tax effect	(2,520)	(894)	(16)
Total	5,794	2,442	38
Net unrealized deferred gain (loss) on hedging instruments:			
Amount arising during the year	207	(18)	1
Before tax effect	207	(18)	1
Tax effect	(64)	6	(0)
Total	143	(12)	0
Retirement benefit liability adjustments:			
Amount arising during the year	982	866	6
Reclassification adjustments	(1,574)	(1,195)	(10)
Before tax effect	(592)	(328)	(3)
Tax effect	218	53	1
Total	(373)	(275)	(2)
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to owners of parent:			
Amount arising during the year	128	(19)	0
Reclassification adjustments	(19)	(9)	(0)
Total	109	(29)	0
Total other comprehensive income	¥ 5,673	¥ 2,125	\$ 37

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

22. Amounts per Share

Amounts per share at March 31, 2024 and 2023 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2024	2023	2024
Net assets	¥ 2,268.88	¥ 2,122.56	\$ 15.03
Profit attributable to owners of parent	202.63	181.63	1.34
Cash dividends	142.00	125.00	0.94

The Company implemented a 2-for-1 common stock split on April 1, 2024. Profit attributable to owners of parent per share and net assets per share are calculated on the assumption that stock split was implemented at the beginning of the year ended March 31, 2023. Cash dividends per share presented above is based on the number of shares before the stock split.

Profit attributable to owners of parent per share has been computed based on the profit available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted profit attributable to owners of parent per share has not been presented for the years ended March 31, 2024 and 2023 since the Company had no potentially dilutive stock at March 31, 2024 and 2023.

The weighted-average number of shares of common stock used to compute profit attributable to owners of parent per share for the years ended March 31, 2024 and 2023 were 487,405 thousand and 487,416 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 seven years from March 31, 2024. 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 seven years from March 31, 2024.

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 and forward foreign exchange 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, 2024 and 2023 and estimated fair value are shown in the following table.

	<i>Millions of yen</i>		
	2024		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	¥ 2,586	¥ 2,586	¥ –
Trade	222,657	222,657	–
Short-term investments and investments in securities (*2) (*3):			
Investments in affiliates	4,788	5,367	579
Other securities	38,062	38,062	–
Total	¥ 268,093	¥ 268,672	¥ 579
Liabilities:			
Short-term loans	¥ (19,298)	¥ (19,298)	¥ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(3,813)	(3,813)	–
Trade	(219,068)	(219,068)	–
Income taxes payable	(10,139)	(10,139)	–
Accrued expenses	(3,754)	(3,754)	–
Deposits (component of deposits and advances received)	(135,239)	(135,239)	–
Long-term debt (including current portion)	(1,456,979)	(1,351,597)	105,382
Long-term payables (including current portion)	(97,436)	(169,545)	(72,108)
Total	¥ (1,945,730)	¥ (1,912,456)	¥ 33,273
Derivative transactions:			
Hedge accounting is applied	¥ 188	¥ 188	¥ –

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	Millions of yen			
	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 U.S. dollars</i>		
	2024		
	Carrying value	Estimated fair value	Difference
Assets:			
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	\$ 17	\$ 17	\$ –
Trade	1,474	1,474	–
Short-term investments and investments in securities (*2) (*3):			
Investments in affiliates	31	35	3
Other securities	252	252	–
Total	\$ 1,775	\$ 1,779	\$ 3
Liabilities:			
Short-term loans	\$ (127)	\$ (127)	\$ –
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	(25)	(25)	–
Trade	(1,450)	(1,450)	–
Income taxes payable	(67)	(67)	–
Accrued expenses	(24)	(24)	–
Deposits (component of deposits and advances received)	(895)	(895)	–
Long-term debt (including current portion)	(9,648)	(8,950)	697
Long-term payables (including current portion)	(645)	(1,122)	(477)
Total	\$ (12,885)	\$ (12,665)	\$ 220
Derivative transactions:			
Hedge accounting is applied	\$ 1	\$ 1	\$ –

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, 2024 and 2023 are summarized as follows:

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	2024	2023	2024
Investments in securities			
Unlisted stocks	¥ 70,418	¥ 64,824	\$ 466

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, 2024 and 2023 amounted to ¥14,661 million (\$97 million) and ¥3,433 million.

(*4) 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, 2024 and 2023 is as follows:

	<i>Millions of yen</i>		
	2024		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	¥ 219,055	¥ –	¥ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	2,586	–	–
Trade	222,642	14	–
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	–	5	–
Other securities with maturities (corporate bonds)	–	–	30
Total	¥ 444,283	¥ 19	¥ 30
<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

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

Redemption Schedules of Financial Instruments (continued)

	<i>Millions of U.S. dollars</i>		
	2024		
	Due in one year or less	Due after one year through five years	Due after five year through ten years
Cash and deposits	\$ 1,450	\$ –	\$ –
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	17	–	–
Trade	1,474	0	–
Short-term investments and investments in securities:			
Other securities with maturities (national government bonds)	–	0	–
Other securities with maturities (corporate bonds)	–	–	0
Total	<u>\$ 2,942</u>	<u>\$ 0</u>	<u>\$ 0</u>

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, 2024 and 2023 are as follows:

<i>Millions of yen</i>				
2024				
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	¥ 37,520	¥ 541	¥ –	¥ 38,062
Derivative transactions:				
Hedge accounting is applied	–	188	–	188
Total	¥ 37,520	¥ 730	¥ –	¥ 38,250
Liabilities:				
Derivative transactions:				
Hedge accounting is applied	¥ –	¥ –	¥ –	¥ –

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>				
2023				
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	¥ 29,302	¥ 42	¥ –	¥ 29,345
Derivative transactions:				
Hedge accounting is applied	–	–	–	–
Total	¥ 29,302	¥ 42	¥ –	¥ 29,345
Liabilities:				
Derivative transactions:				
Hedge accounting is applied	¥ –	¥ 18	¥ –	¥ 18
<i>Millions of U.S. dollars</i>				
2024				
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments and investments in securities:				
Other securities	\$ 248	\$ 3	\$ –	\$ 252
Derivative transactions:				
Hedge accounting is applied	–	1	–	1
Total	\$ 248	\$ 4	\$ –	\$ 253
Liabilities:				
Derivative transactions:				
Hedge accounting is applied	\$ –	\$ –	\$ –	\$ –

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

23. Financial Instruments (continued)

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

Financial assets and liabilities other than those measured at fair value by level as of March 31, 2024 and 2023 are as follows:

	<i>Millions of yen</i>			
	2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	¥ —	¥ 2,586	¥ —	¥ 2,586
Trade	—	222,657	—	222,657
Short-term investments and investments in securities:				
Investments in affiliates	5,367	—	—	5,367
Total	¥ 5,367	¥ 225,243	¥ —	¥ 230,610
Liabilities:				
Short-term loans	¥ —	¥ 19,298	¥ —	¥ 19,298
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	—	3,813	—	3,813
Trade	—	219,068	—	219,068
Income taxes payable	—	10,139	—	10,139
Accrued expenses	—	3,754	—	3,754
Deposits (component of deposits and advances received)	—	135,239	—	135,239
Long-term debt (including current portion)	761,495	590,101	—	1,351,597
Long-term payables (including current portion)	—	169,545	—	169,545
Total	¥ 761,495	¥ 1,150,961	¥ —	¥ 1,912,456

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>			
	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 U.S. dollars</i>			
	2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Notes and accounts receivable:				
Unconsolidated subsidiaries and affiliates	\$ –	\$ 17	\$ –	\$ 17
Trade	–	1,474	–	1,474
Short-term investments and investments in securities:				
Investments in affiliates	35	–	–	35
Total	<u>\$ 35</u>	<u>\$ 1,491</u>	<u>\$ –</u>	<u>\$ 1,527</u>
Liabilities:				
Short-term loans	\$ –	\$ 127	\$ –	\$ 127
Notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	–	25	–	25
Trade	–	1,450	–	1,450
Income taxes payable	–	67	–	67
Accrued expenses	–	24	–	24
Deposits (component of deposits and advances received)	–	895	–	895
Long-term debt (including current portion)	5,043	3,907	–	8,950
Long-term payables (including current portion)	–	1,122	–	1,122
Total	<u>\$ 5,043</u>	<u>\$ 7,622</u>	<u>\$ –</u>	<u>\$ 12,665</u>

The above breakdown of “long-term debt (including current portion)” includes bond (including current portion) in the amount of ¥761,495 million (\$5,043 million) at Level 1 and long-term loans (including current portion) in the amount of ¥590,101 million (\$3,907 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 (continued)

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.

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.

Private investments are valued based on the net asset value as the fair value and classified as Level 2 since such investments have no market price and there are no significant restrictions on cancellation or repurchase to such an extent that market participants would require compensation for the risk.

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.

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 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.

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, 2024 and 2023.

The notional amounts and the estimated fair value of the derivative instruments outstanding qualifying for hedge accounting at March 31, 2024 and 2023 were as follows:

Currency-related transactions

Method of hedge accounting	Description of hedging instruments	Hedged items	<i>Millions of yen</i>		
			2024		
			Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy:				
	Euro	Accounts payable	¥ 3,752	¥ 2,546	¥ 198 (*1)
	U.S. dollars	(Forecasted transaction)	443	—	(5) (*1)
	Other		476	—	4 (*1)
	Sell:				
	Euro	Accounts receivable	41	—	(2) (*1)
	Other	(Forecasted transaction)	60	—	(5) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy:				
	Euro		—	—	(*2)
	U.S. dollars	Accounts payable	—	—	(*2)
	Other		—	—	(*2)
			¥ 4,774	¥ 2,546	¥ 188

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

24. Derivative Transactions (continued)

Currency-related transactions (continued)

			<i>Millions of yen</i>		
			2023		
Method of hedge accounting	Description of hedging instruments	Hedged items	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)
	Sell:				
	Euro	Accounts receivable	—	—	— (*1)
	Other	(Forecasted transaction)	—	—	— (*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)

			<i>Millions of U.S. dollars</i>		
			2024		
Method of hedge accounting	Description of hedging instruments	Hedged items	Notional amount	Notional amount (Over 1 year)	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Buy:				
	Euro	Accounts payable	\$ 24	\$ 16	\$ 1 (*1)
	U.S. dollars	(Forecasted transaction)	2	—	(0) (*1)
	Other		3	—	0 (*1)
	Sell:				
	Euro	Accounts receivable	0	—	(0) (*1)
	Other	(Forecasted transaction)	0	—	(0) (*1)
Allocation method of forward foreign exchange contracts	Forward foreign exchange contracts				
	Buy:				
	Euro		—	—	(*2)
	U.S. dollars	Accounts payable	—	—	(*2)
	Other		—	—	(*2)
			\$ 31	\$ 16	\$ 1

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.

Interest-rate related transactions

			<i>Millions of yen</i>		
			2024		
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>		
			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 U.S. dollars</i>		
			2024		
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	\$ 318	\$ 318	(*)

(*) 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, 2024 and 2023 is as follows:

	Millions of yen							
	2024							
	Mobility							
	Passenger transportation			Sales of goods and food services	Real estate	Travel and regional solutions	Other	Total
	Commuter passes	Non-Commuter passes	Other					
Revenue from contracts with customers:	¥ 139,851	¥ 703,530	¥ 134,905	¥ 188,635	¥ 116,657	¥ 206,000	¥ 27,768	¥1,517,349
Revenue from other sources	—	—	8,146	8,365	101,083	—	78	117,673
Operating revenues from external customers	¥ 139,851	¥ 703,530	¥ 143,052	¥ 197,000	¥ 217,741	¥ 206,000	¥ 27,846	¥1,635,023
	Millions of yen							
	2023							
	Mobility							
	Passenger transportation			Sales of goods and food services	Real estate	Travel and regional solutions	Other	Total
	Commuter passes	Non-Commuter passes	Other					
Revenue from contracts with customers:	¥ 134,708	¥ 566,750	¥ 124,639	¥ 158,282	¥ 107,961	¥ 162,933	¥ 27,905	¥ 1,283,180
Revenue from other sources	—	—	7,663	7,625	96,975	—	86	112,351
Operating revenues from external customers	¥ 134,708	¥ 566,750	¥ 132,302	¥ 165,907	¥ 204,936	¥ 162,933	¥ 27,991	¥ 1,395,531

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

	Millions of yen							
	2024							
	Mobility			Sales of goods and food services	Real estate	Travel and regional solutions	Other	Total
	Passenger transportation							
	Commuter passes	Non-Commuter passes	Other					
Revenue from contracts with customers:	\$ 926	\$ 4,659	\$ 893	\$ 1,249	\$ 772	\$ 1,364	\$ 183	\$ 10,048
Revenue from other sources	—	—	53	55	669	—	0	779
Operating revenues from external customers	\$ 926	\$ 4,659	\$ 947	\$ 1,304	\$ 1,441	\$ 1,364	\$ 184	\$ 10,827

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

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, 2024 and 2023 is as follows:

Segment classification and its aggregation method are changed from the year ended March 31, 2024. Segment information for the year ended March 31, 2023, has been restated and disclosed based on the revised segment classification.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

Balances of contract assets and contract liabilities

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>
	March 31, 2024	April 1, 2023	March 31, 2024
Accounts receivable arising from contracts with customers	¥ 130,108	¥ 117,469	\$ 861
Contract assets	17,945	26,441	118
Contract liabilities	83,444	82,110	552

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

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 Mobility business, sales of inventory assets in the real estate and construction business, and sales of planned travel products in the Travel and regional solutions business. Contract liabilities are reversed upon revenue recognition.

Of the revenue recognized during the year ended March 31, 2024, the amount included in the balance of contract liabilities at the beginning of the year was ¥81,598 million (\$540 million). The main reason for the decrease of ¥8,496 million (\$56 million) in contract assets during the year was decrease in the rights of the Group to the related consideration for which performance obligations were fulfilled but are not unconditional in the Travel and regional solutions business. The main reason for the increase of ¥1,333 million (\$8 million) in contract liabilities during the year was increases in consideration received before fulfillment of performance obligations in the Mobility business.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

25. Revenue Recognition (continued)

Balances of contract assets and contract liabilities (continued)

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. The main reason for the increase of ¥9,608 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 and regional solutions business. The main reason for the increase of ¥10,156 million in contract liabilities during the year was increases in consideration received before fulfillment of performance obligations in the Mobility business.

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, 2024	April 1, 2023	March 31, 2024
Within one year	¥ 82,218	¥ 81,870	\$ 544
More than one year	1,225	240	8
Total	¥ 83,444	¥ 82,110	\$ 552

	<i>Millions of yen</i>	
	March 31, 2023	April 1, 2022
Within one year	¥ 81,870	¥ 71,850
More than one year	240	103
Total	¥ 82,110	¥ 71,954

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

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 mobility, sales of goods and food services, real estate and travel and regional solutions.

The Group is composed of four main business segments and those reportable segments are "Mobility," "Sales of goods and food services," "Real estate," and "Travel and regional solutions." "Mobility" 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" engages in sales of goods and food services, department stores, and other wholesale operations. "Real estate" segment covers the real estate sales and leasing business, shopping center, and hotel operations. "Travel and regional solutions" encompass travel agencies and regional solutions.

In order to facilitate steady progress on rebuilding its business portfolio towards the achievement of its long-term vision 2032, certain segment classifications and their aggregation methods are changed from the year ended March 31, 2024, in conjunction with the creation of the In-house railway company. Therefore, the previous segment classifications "Transportation," "Sales of goods and food services," "Real estate," and "Other" have been changed to "Mobility," "Sales of goods and food services," "Real estate," "Travel and regional solutions," and "Other."

Segment information for the year ended March 31, 2023 has been restated and disclosed based on the revised segment classification.

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, 2024 and 2023 is outlined as follows:

<i>Millions of yen</i>								
2024								
Reportable segments							Eliminations and adjustments	Consolidated
Mobility	Sales of goods and food services	Real estate	Travel and regional solutions	Other	Subtotal			
Operating revenues and income by reportable segments:								
Operating revenues:								
External customers	¥ 986,434	¥ 197,000	¥ 217,741	¥ 206,000	¥ 27,846	¥ 1,635,023	¥ –	¥ 1,635,023
Intersegment operating revenues or transfers	50,964	4,743	17,169	3,235	59,697	135,810	(135,810)	–
Total	¥ 1,037,399	¥ 201,744	¥ 234,910	¥ 209,235	¥ 87,544	¥ 1,770,833	¥ (135,810)	¥ 1,635,023
Segment income	¥ 114,473	¥ 13,076	¥ 40,642	¥ 7,846	¥ 4,231	¥ 180,270	¥ (521)	¥ 179,748
Segment assets	¥ 2,302,147	¥ 111,660	¥ 883,829	¥ 70,119	¥ 70,384	¥ 3,438,141	¥ 339,781	¥ 3,777,923
Other items:								
Depreciation and amortization	¥ 128,768	¥ 5,591	¥ 29,765	¥ 461	¥ 1,375	¥ 165,962	¥ (2,639)	¥ 163,322
Investment in affiliates accounted for by the equity method	41,940	–	–	–	8,140	50,081	–	50,081
Increase in property, plant and equipment and intangible assets	171,967	6,360	86,203	777	2,128	267,437	–	267,437

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

<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	¥ 873,618	¥ 170,921	¥ 221,467	¥ 164,893	¥ 82,538	¥ 1,513,439	¥ (117,908)	¥ 1,395,531
Segment income	¥ 33,249	¥ 5,493	¥ 34,577	¥ 6,080	¥ 4,538	¥ 83,939	¥ 31	¥ 83,970
Segment assets	¥ 2,249,537	¥ 106,468	¥ 807,473	¥ 75,152	¥ 62,844	¥ 3,301,475	¥ 434,031	¥ 3,735,507
Other items:								
Depreciation and amortization	¥ 124,953	¥ 5,618	¥ 29,816	¥ 442	¥ 1,457	¥ 162,288	¥ (2,632)	¥ 159,655
Investment in affiliates accounted for by the equity method	39,721	–	–	–	7,553	47,274	–	47,274
Increase in property, plant and equipment and intangible assets	173,938	3,847	56,196	678	957	235,617	–	235,617

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

<i>Millions of U.S. dollars</i>								
2024								
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	\$ 6,532	\$ 1,304	\$ 1,441	\$ 1,364	\$ 184	\$ 10,827	\$ –	\$ 10,827
Intersegment operating revenues or transfers	337	31	113	21	395	899	(899)	–
Total	\$ 6,870	\$ 1,336	\$ 1,555	\$ 1,385	\$ 579	\$ 11,727	\$ (899)	\$ 10,827
Segment income	\$ 758	\$ 86	\$ 269	\$ 51	\$ 28	\$ 1,193	\$ (3)	\$ 1,190
Segment assets	\$ 15,246	\$ 739	\$ 5,853	\$ 464	\$ 466	\$ 22,769	\$ 2,250	\$ 25,019
Other items:								
Depreciation and amortization	\$ 852	\$ 37	\$ 197	\$ 3	\$ 9	\$ 1,099	\$ (17)	\$ 1,081
Investment in affiliates accounted for by the equity method	277	–	–	–	53	331	–	331
Increase in property, plant and equipment and intangible assets	1,138	42	570	5	14	1,771	–	1,771

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

The adjustments of segment income in the amounts of (¥521 million (\$3 million)) and ¥31 million for the years ended March 31, 2024 and 2023, respectively, were eliminations of intersegment transactions.

The adjustments of segment assets in the amounts of ¥339,781 million (\$2,250 million) and ¥434,031 million, included corporate assets not allocated to reportable segments of ¥421,547 million (\$2,791 million) and ¥508,687 million, and eliminations of intersegment receivables or payables of (¥81,766 million (\$541 million)) and (¥74,655million) at March 31, 2024 and 2023, respectively.

The adjustments of depreciation and amortization in the amounts of (¥2,639 million (\$17 million)) and (¥2,632 million) for the years ended March 31, 2024 and 2023, respectively, were eliminations of intersegment transactions.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

26. Segment Information (continued)

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

Information on each product and service was omitted for the years ended March 31, 2024 and 2023 because it was same as that of the reportable segment information.

Geographical information was omitted for the years ended March 31, 2024 and 2023 because net sales to external customers in Japan exceed 90% of consolidated sales and property, plant and equipment in Japan exceeds 90% of property, plant and equipment of the consolidated balance sheet.

Information on sales to major customers is omitted because there is no specific customers that account for 10% or more of consolidated sales.

Information on loss on impairment of property, plant and equipment per each reportable segment was omitted for the years ended March 31, 2024 and 2023 because the amounts were immaterial.

Information on amortization of goodwill and the remaining balance by reportable segment as of and for the years ended March 31, 2024 and 2023 was omitted because there was no relevant information.

Information on gain on negative goodwill by reportable segment as of and for the years ended March 31, 2024 and 2023 was omitted because there was no relevant information.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

27. Related Party Transactions

Transactions with related parties

Transactions with the Company and related parties for the year ended March 31, 2024 is summarized as follows:

Type	Name	Address	Capital or contribution to capital	Title	Voting interest	Relationship
Officer	Kazuaki Hasegawa	—	—	President and Representative Director of the Company	Ownership directly 0.0%	—

Details of business transaction	<i>Millions of yen</i> <i>(Millions of U.S. dollars)</i>		Account	Balance at the end of year
	Amount of transaction			
Disposal of treasury stock accompanying contribution in kind of the monetary compensation claims (*1)	¥ 10 (\$ 0)	—	—	—

(*1) This item is due to the contribution in kind of monetary compensation claims accompanying the restricted stock remuneration plan.

There were no items to be reported for the year ended March 31, 2023.

28. Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2024, was approved at a meeting of the shareholders of the Company held on June 19, 2024:

	<i>Millions of yen</i>	<i>Millions of U.S. dollars</i>
Cash dividends (¥84.5 = U.S.\$0.56 per share)	¥ 20,604	\$ 136

The Company implemented a 2-for-1 common stock split on April 1, 2024. Cash dividends per share presented above is based on the number of shares before the stock split.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

28. Subsequent Events (continued)

(2) *Stock split and corresponding partial amendment to the Articles of Incorporation*

The Company implemented a stock split and made a corresponding partial amendment to the Articles of Incorporation on April 1, 2024, in accordance with the resolution of its Board of Directors on October 31, 2023.

(1) Purpose of stock split

By implementing the stock split to lower the minimum investment amount, the Company intends to make shares more affordable for investors, with a view to expanding the investor base.

(2) Overview of stock split

(i) Split method: The Company split its shares of common stock owned by shareholders recorded in the final register of shareholders as of March 31, 2024, in the proportion of 1 share into 2 shares.

(ii) Increase in number of shares increased due to stock split

Total number of issued shares before stock split: 244,001,600 shares
Increase in number of shares due to stock split: 244,001,600 shares
Total number of issued shares after stock split: 488,003,200 shares
Total number of authorized shares after stock split: 1,600,000,000 shares

(iii) Schedule of stock split

Date of public notice of record date: March 15, 2024
Record date: March 31, 2024
Effective date: April 1, 2024

(iv) Effect on per share information

The effect on per share information is described in Note 22.

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

28. Subsequent Events (continued)

(2) *Stock split and corresponding partial amendment to the Articles of Incorporation (continued)*

(3) Partial amendment to the Articles of Incorporation

(i) Reason for amendment

In accordance with the provisions of Article 184, Paragraph 2 of the Companies Act, the Company changed the total number of authorized shares stipulated in Article 6 of the Articles of Incorporation as of April 1, 2024, in response to the implementation of the stock split.

(ii) Details of amendment

The details of the amendment are as follows (Amended parts are underlined)

<u>Current Articles of Incorporation</u>	<u>Amend Articles of Incorporation</u>
Article 6 Total Number of Authorized Shares	Article 6 Total Number of Authorized Shares
The total number of shares the Company is authorized to issue shall be <u>800,000,000</u> shares.	The total number of shares the Company is authorized to issue shall be <u>1,600,000,000</u> shares.

(iii) Schedule of amendment

Effective date of amendment of the Articles of Incorporation: April 1, 2024

(3) *Acquisition of treasury stock*

At the Board of Directors meeting held on April 30, 2024, the Company resolved to acquire its own shares under the provisions of its Articles of Incorporation pursuant to Article 156 of the Companies Act, pursuant to Article 165, paragraph 3 of the said Law., set out below.

(1) Reason for acquisition of own shares

To enhance shareholder returns and improve capital efficiency

(2) Type of shares to be acquired

Shares of common stock

West Japan Railway Company

Notes to Consolidated Financial Statements (continued)

28. Subsequent Events (continued)

(3) *Acquisition of treasury stock (continued)*

(3) Total number of shares to be acquired

Up to 20,000,000 shares
(Equivalent to 4.1% of outstanding shares excluding treasury stock)

(4) Total cost of acquisition

Up to ¥50 billion (\$331 million)

(5) Period of acquisition

From May 1, 2024 to September 20, 2024