

**(Translation)**

(Security Code: 9021)

To the Shareholders:

## **JR-West's Business Report**

DOCUMENTS ATTACHED TO  
THE NOTICE OF THE 23RD ORDINARY GENERAL MEETING OF SHAREHOLDERS

(From April 1, 2009 to March 31, 2010)

### **West Japan Railway Company**

#### Contents

To Our Shareholders .....	1
Business Report .....	2
Consolidated Balance Sheet .....	24
Consolidated Statement of Income .....	26
Consolidated Statement of Changes in Shareholders' Equity, Etc. ....	27
Notes to Consolidated Financial Statements .....	28
Balance Sheet .....	41
Statement of Income .....	43
Statement of Changes in Shareholders' Equity, Etc. ....	44
Notes to Non-Consolidated Financial Statements .....	45
Auditors' Reports .....	52

To Our Shareholders:

We should like to thank you, our shareholders, for your support to our business activities.

On April 25, 2005, the Company caused a grave accident claiming the lives of 106 passengers and injuring more than 500 passengers.

We now again pray for all the victims of the accident and would like to express our sincerest apology to the bereaved families. We would also like to express our deepest sympathy and sincerest apology to the wounded passengers and wish them to recover as soon as possible.

We would like to express our sincerest apology to our customers, our shareholders and the residents of the affected area for causing great anxiety and trouble.

Since then, by placing the "Basic Safety Plan" in the core of our "JR-West Group's Medium-Term Management Plan", we have steadily implemented various measures to enhance safety and also exerted our efforts to "build a corporate culture of placing top priority on safety" in accordance with our "Corporate Philosophy" and "Safety Charter".

However, due to the grave issue concerning compliance that had come up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, we aroused deep mistrust among all parties concerned and caused offense to them. We most humbly apologize.

Currently, we have been focusing efforts on preventing a recurrence of similar problems by establishing a "Corporate Ethics Committee" and a "Code of Conduct for Directors", among others. Also, we will more strongly promote measures under our three pillars of management: "measures to have ourselves accepted as acting with the best of intentions by the victims of the train accident", "enhancement of safety" and "promotion of reform".

To be truly worthy of public confidence, we will encourage each of our employees and JR-West Group's employees never to forget the accident and to strongly keep in mind that we are in charge of guarding the invaluable lives of any and all passengers, strongly feel engaged with the society and keep on "*Kodo* (thinking and acting)" to provide safe and reliable transportation services to all customers.

While the business conditions are expected to continue to remain very difficult as the Japanese economy has experienced a serious slump and expressway tolls have been steeply reduced, among others, we will give first place to our efforts to enhance safety and implement measures to ensure a profit and strengthen our management base. Hence, we cordially seek the continued understanding and support of our shareholders.

June 2010

Takayuki Sasaki  
President and Representative Director

## **BUSINESS REPORT FOR THE 23RD FISCAL YEAR**

(From April 1, 2009 to March 31, 2010)

### **1. Matters concerning the situations of West Japan Railway Group (the "Group")**

#### **(1) Business trends and achievements**

##### **(i) General developments and results of business activities:**

On April 25, 2005, the Company caused a very grave accident to occur between Tsukaguchi and Amagasaki on the Fukuchiyama Line and 106 lives were claimed and more than 500 passengers were injured. The Company has since set up to "response to the bereaved families and the victims to the fullest extent," "implementation of various measures for safety enhancement" and "promotion of reform of its corporate culture and climate" as its "three pillars of management" and continued its all-out efforts. The Company also has taken with utmost seriousness the report on the investigation of the train accident concerning the Fukuchiyama Line train accident publicized by the Aircraft and Railway Accidents Investigation Commission in June 2007, and promoted improvement measures in response sincerely and swiftly to various remarks, including "proposals" and "opinions" stated therein.

During the fiscal year under review, the Company held a "memorial ceremony commemorating the deceased victims of the train accident on the Fukuchiyama Line", as well as "explanatory sessions" on the train accident on the Fukuchiyama Line and its measures taken after the accident in August 2009, whereby continuing its all-out efforts to respond to the victims. In addition, in consideration of the accident, the Company established an "JR-West *Anshin* Foundation" in April 2009, which was certified as a public-interest foundation in January 2010.

Based on the "Corporate Philosophy" and "Safety Charter" instituted in March 2006, the Company has implemented its "JR-West Group's Medium-Term Management Plan" formulated in May 2008 to build "a corporate culture of placing top priority on safety", further enhance safety, restore the confidence of its customers and achieve sustainable growth in the future through these activities. Specifically, for the purpose of safety enhancement, its greatest issue, the Company has placed the "Basic Safety Plan" in the core of the "JR-West Group's Medium-Term Management Plan" and exerted its efforts to establish a safety management system based on risk assessments to "build a corporate system to ensure no accidents to produce casualties among our customers and no serious labor accidents to our employees".

With regard to the promotion of "reform", the Company has promote measures to reform the mind-set of all officers and employees and business operations in general, based on the recommendations by the "Reform Promotion Council" consisting of third-party experts.

In June 2009, the Company built up its system to steadily carry out its Basic Safety Plan and created the office of "Technical Director" to steadily advance technological

improvements that would ensure safety, whereby further strengthening management bases. In addition, in serious consideration of the result of the disposition by the Kobe District Public Prosecutors' Office with regard to the train accident on the Fukuchiyama Line, the Company changed its management system in August 2009 to a system that would comprehensively and strongly implement measures under the "three pillars of management".

In September 2009, with regard to a grave issue concerning compliance that had come up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, the Company was ordered by the Ministry of Land, Infrastructure, Transport and Tourism (the "MLIT") to conduct fact-finding inquiries, implement remediation measures, including preventive measures, based on the results of such inquiries and make a report thereof. In November 2009, the Company compiled the results of fact-finding inquiries and remediation measures, including preventive measures, obtained from its "Special Committee on Compliance" comprised of third-party experts and its internal team under the direct control of the President, and reported the same to the MLIT. The Company has since exerted its all-out efforts to prevent a recurrence of similar problems and revitalize itself. Specifically, in December 2009, to implement such measures promptly and steadily, the Company established a "Corporate Revival Headquarters" and a "Corporate Ethics and Risk Management Department" to integrate its functions to promote compliance. In addition, in February 2010, the Company established a "Corporate Ethics Committee" as an advisory organ of its Board of Directors, which deliberated on policies for the establishment of corporate ethics, among others. Furthermore, the Company instituted an "Code of Conduct for Directors" and "Criteria for Selection of Directors and Other Officers" to make its officers materialize its corporate philosophy with a good sense of ethics and responsibility. In October and December 2009, the Company held "explanatory sessions" on such measures to the victims of the train accident on the Fukuchiyama Line.

The environment surrounding the management of the Company has remained quite difficult due to a serious slump of the Japanese economy, as well as steep reductions on expressway tolls and the spread of a new influenza during the first half of the fiscal year under review. Under these circumstances, with the aim of enhancing its corporate value on a medium- and long-term range, the Company has exerted its all-out efforts to promote the enhancement of safety in the railway operations, its core business, and in other businesses of the Group, implemented various measures by exploiting their respective characteristics and made effective use of their assets to enhance the values of its railway belts. The Company has also carried out various marketing activities to boost tourist demand to remain profitable and reviewed the systems of operations in its whole business administration under the supervision of the "Management Improvement Headquarters" to strengthen its management base.

However, on a consolidated basis, operating revenues for the fiscal year under review amounted to ¥1,190.1 billion, down 6.7% from the previous fiscal year, while operating income amounted to ¥76.5 billion, down 37.5%. Recurring profit and net income (after income taxes) totaled ¥48.1 billion, down 49.3%, and ¥24.8 billion, down 54.4%, respectively.

(ii) Individual developments and results of business activities by segment

<Transportation Business>

In the railway operations, the Company has continued to promote improvement measures in response to various remarks, including "proposals" and "opinions" stated in the report on the investigation of the train accident. In addition, to "build a corporate system to ensure no accidents to produce casualties among our customers and no serious labor accidents to our employees" based on the "Basic Safety Plan" formulated in April 2008, the Company has implemented measures for risk assessments and to make such practices well-established. The Company also has continued to hold "safety meetings" at which its officers can exchange opinions with its employees in the field. With regard to hardware infrastructures, the Company has installed additional ATS-P systems, improved the safety of railway crossings, accelerated quake-proof reinforcement works of the columns of its elevated bridges and installed additional seismometers, among other things. Furthermore, the Company has given to trainees, the scope of whom has been broadened to cover the employees of its group companies since April 2009, safety training at its "*Tetsudo Anzen Kodokan* (Library to Think and Act for Railway Safety)" established to seriously ponder the gravity of the accident in the future and teach lessons from the accident systematically. The Company also has conducted various drills to enhance its capabilities to rescue passengers and respond upon the occurrence of an accident.

With regard to transportation, in March 2010, the Company revised the timetables: the Company commenced to operate N700 series "Nozomi" trains for all regular through services between Tokyo and Hakata and as to the conventional railway lines, the Company launched new cars to its limited express "Thunderbird" and raised the frequency of rapid service trains on the Sagano Line after the construction of a double line between Kyoto and Sonobe. In June 2009, the Company raised the frequency of its express "Hakutaka" trains between Kanazawa and Echigoyuzawa and to further enhance convenience. In addition, in October 2009, the Company commenced to operate traffic control systems for the Osaka Loop Line and the Yamatoji Line to ensure safe and stable transportation.

With regard to marketing activities, the Company commenced an "EX-IC (Express IC)" service for the Sanyo Shinkansen Line in August 2009 to enhance convenience and continued to proactively spread basic information on the Sanyo Shinkansen Line services, including the raised frequency, the comfort of N700 series trains, the convenience of the "Express Reservations" service and the price edge to promote the utilization of its services. As to the conventional railway lines, the Company agreed with the "*Surutto* Kansai Association" to commence deliberations on tie-up services utilizing IC-card tickets and cooperate to enhance convenience of the railway in December 2009. Under the environment where the economy slumped and expressway tolls had been reduced substantially, the Company conducted active promotional activities for its special tickets such as "Kodama Reserved Seat Return Tickets" and "West Japan Passes" and also engaged in sales promotion of the "*Aitai* Hyogo Destination Campaign", "Japanese Beauty Hokuriku Campaign" and other campaigns jointly with the relevant local areas, travel agencies and other JR companies to create tourist demand. Furthermore, the Company merged its two consolidated subsidiaries engaging in car rental into one in July 2009 to establish a system to make it more efficiently perform its function as a secondary access to the railway.

With regard to passenger services, in consideration of the social trends such as the prevention of secondhand-smoke exposure, the Company banned smoking in limited expresses on the conventional railway lines in June 2009, and all-day on the platforms of the stations on the conventional railway lines in the Kyoto-Osaka-Kobe (Keihanshin) area in July 2009. The Company also has continued to install additional "Trouble Information Displays" to provide information on the latest train operations in the event of any operational disorder, among others.

With regard to environmental matters, the Company has engaged in its "*Kodo* (Think and Act) Eco" project that encourages each and every employee to think for himself/herself and reassess his/her daily life and duties in his/her workplace. Additionally, the Company has focused its combined efforts with its group companies on customer-participatory activities such as an "Eco Life Point" service commenced in November 2009.

With regard to ferry services (Miyajima Line), to establish a system to allow timely and appropriate decision-making and to further enhance safety and deploy more fine-tuned marketing practices, the Company transferred its ferry business to its subsidiary JR West Miyajima Ferry Co. Ltd. in April 2009.

With regard to bus business, under the keenly competitive environment where expressway tolls have been reduced substantially, among others, the Group has exerted its efforts to enhance the convenience of customers by revising the timetables, establishing new stops and setting flexible prices, among others.

As a result, however, principally due to a serious slump of the Japanese economy, as well as steep reductions on expressway tolls and the spread of a new influenza during the first half of the fiscal year under review, operating revenues from the Transportation Business amounted to ¥797.4 billion, down 6.9% from the previous fiscal year and operating income amounted to ¥45.2 billion, down 49.3%.

#### <Sales of Goods and Food Services>

With regard to the department store in the new North Building of the Osaka station, its operating body West Japan Railway Isetan Limited has made preparations for its opening with its business commencement office taking the central role. The Group also has opened establishments for sales of goods and food services, including an "Omiyage Ichiba" following the improvement of the Hakata station, as well as a commercial establishment "Eki Marche Takarazuka" in the Takarazuka station following the construction of its elevated station house over the tracks, in an effort to make its stations more attractive.

As a result, however, principally due to a serious slump of the Japanese economy and the spread of a new influenza during the first half of the fiscal year under review, operating revenues from the Sales of Goods and Food Services amounted to ¥201.9 billion, down 6.2% and operating income amounted to ¥3.1 billion, down 33.6%.

## <Real Estate Business>

The Group has completed the renovation of the entire "Station Plaza Tennoji" in the premises of the Tennoji station and opened a new shopping center "Wakayama Mio" by refurbishing the Wakayama Station Building as well as a new "JR Sumakaihinkoen Station West NK Building" with a fitness club and others as tenants in the west of the Sumakaihinkoen station. Thus, the Group has promoted development of its station premises and surrounding properties. With regard to the Osaka station development project, the Group has steadily carried out its predetermined plans for the Osaka station renovation and new North Building development project, as well as the construction for extensions to the ACTY Osaka Building. It also has promoted sales of condominium apartments on its former lots of residence for its employees. Furthermore, in April 2009, the Company merged its two consolidated subsidiaries engaging in the operation of shopping centers and the development of premises under the elevated tracks in the Okayama area into one to further augment its competitiveness and collective strengths.

As a result, operating revenues from the Real Estate Business amounted to ¥70.9 billion, down 0.3% from the previous fiscal year and operating income amounted to ¥22.5 billion, down 0.5%.

## <Other Businesses>

As to the hotel business, the Group has exerted its efforts on sales promotional activities by refurbishing accommodation facilities and launching various events. As to the travel agency business, the Group has exerted its efforts to increase sales by utilizing its Internet retailing system. With regard to "J-WEST cards", the Group exerted its efforts to increase its membership by newly issuing family member cards. With regard to "ICOCA electronic money", the Group has commenced the mutual use thereof with Central Japan Railway Company's "TOIKA" cards and also exerted its efforts to make it available at more stores downtown, including major convenience stores and eating establishments.

As a result, however, principally due to a serious slump of the Japanese economy and the spread of a new influenza during the first half of the fiscal year under review, operating revenues from Other Businesses in the aggregate amounted to ¥119.6 billion, down 9.7% from the previous fiscal year and operating income amounted to ¥6.7 billion.

### (2) Capital expenditure

During the fiscal year under review, the Group made capital investments by placing the full weight of its effort on enhancing safety, including the installation of additional ATS-P systems on its rail tracks. The Group also made investments to improve services and profitability and build up its transportation infrastructures, among other things.

The investments totaled ¥246.3 billion.

A. Major projects completed during the fiscal year under review are as follows:

- Construction to introduce traffic control systems to the Osaka Loop Line and the Yamatoji Line.
- Construction to elevate the tracks near the Nara station on the Yamatoji Line.
- Construction to improve transportation of the Sagano Line (construction of a double line between Kyoto and Sonobe).
- Construction to improve transportation of the Kishin Line.
- Construction to build new rolling stock (Shinkansen: 80 railcars, conventional railway lines: 77 railcars).

B. Major projects under construction as of the end of the fiscal year under review are as follows:

- Extended construction to install ATS-P systems on the relevant lines.
- Construction to introduce traffic control systems to the JR Takarazuka Line, the JR Tozai Line and the Gakken-Toshi Line.
- Construction related to the Osaka Station Development Project.
- Improvement of the concourse of the Shin-Osaka station.
- Construction to improve facilities associated with the extension of the Kyushu Shinkansen Line to Hakata.
- Construction to build new rolling stock (Shinkansen: 176 railcars, conventional railway lines: 329 railcars).

### (3) Fund-raising

The Group borrowed ¥115.0 billion in domestic straight bonds and ¥66.9 billion in long-term debt, which were used for debt redemption and capital expenditure.

### (4) Issues to be addressed

We understand that it is the first and foremost for management to continue efforts to build up a "corporate culture of placing top priority on safety" and restore the confidence of our customers and the society eroded as a result of the train accident on the Fukuchiyama Line and that we must build up a firm foundation for the Group as a whole to persistently develop in the future while offering useful services to the society, based on the provision of safe, reliable high-quality transportation services.

Taking into consideration the grave issue concerning compliance that has come up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, we will exert our efforts to prevent a recurrence of similar problems by establishing corporate ethics and enhancing corporate governance and more strongly implement measures under our "three pillars of management" to revitalize ourselves.

With regard to the response to the bereaved families and the victims of the train accident on the Fukuchiyama Line, which we recognize is the highest priority issue, we will

listen to them sincerely and respond to their opinions and requests in a courteous manner, and also strengthen our response to have ourselves accepted as acting with the best of intentions.

With regard to safety enhancement, we will steadily implement the "Basic Safety Plan", which essentially seeks to "build a corporate system to ensure no accidents to produce casualties among our customers and no serious labor accidents to our employees", and further improve our safety management system in accordance with our "Railway Safety Management Manual".

To be specific, we will exert our efforts to establish safety management based on risk assessments by sharing risk information, implementing effective measures and implementing recommended measures for risk assessments in a cross-sectional manner, and also implement measures to meet various requirements for the basis of safety, including the improvement of communications, reinforcement of the cooperation with our group companies and subcontractors and procurement and development of human resources. In addition, we will make planned investments to maintain and renovate our hardware infrastructures, and implement measures, including the installation of additional ATS systems, measures to prevent accidents at rail crossings, platform safety measures and measures to prevent accidents during track maintenance work. Furthermore, we will keep up efforts never to forget the train accident on the Fukuchiyama Line and continue to heighten the educational effect learned from the accident, including training at our "*Tetsudo Anzen Kodokan* (Library to Think and Act for Railway Safety)".

With regard to the "reforming" of our corporate culture and climate, we will promote reforming our corporate climate to revitalize ourselves by making each of our employees keenly aware that his/her duties interact with society and continue to "think and act (*Kodo*) for oneself" to materialize our "Corporate Philosophy".

With regard to the railway operations, in difficult economic conditions and under the competitive environment where expressway tolls have been reduced substantially, some expressways will be made toll-free and the number of departure and arrival slots will be increased for the Haneda airport, among others, we will make preparations for the commencement of the service of the entire Kyushu Shinkansen Line in the spring of 2011 by creating a convenient timetable, including mutual through services of the Sanyo and Kyushu Shinkansen Lines, a line of products and sales channels. We will also launch publicity campaigns for the convenience and price advantage of our "Express Reservations" and "EX-IC (Express IC)" services and offer our "J-West Premium Program" and "EX-Reservation Corporate Service" to increase the use of the Sanyo Shinkansen services. In addition, by utilizing our "Destination Campaign", "DISCOVER WEST Campaign" and other campaigns, we will develop materials for tourism, plan travel products and promote sales jointly with the relevant local areas and travel agencies to create tourist demand. We will also offer convenient services through the mutual use of our "ICOCA" and JR Kyushu's "SUGOCA" and wider collaboration with other private railway companies for the use of IC cards in the Keihanshin area. Furthermore, we will implement measures to raise the level of services in general, including front-desk services of our employees, stations and train equipment, and aggressively promote measures that may satisfy passengers by installing barrier-free facilities in collaboration with local authorities and otherwise creating

customer-friendly stations.

With regard to Sales of Goods and Food Services and Real Estate Business, for the purpose of maximizing our asset efficiencies, enhancing the potentials of our stations and their surrounding premises and revitalizing the premises between our stations in combination of our railway division and in collaboration with local authorities and communities, we will enhance the value of our railway belts to create "rail belts that may enhance the functions of our stations and streets, be convenient and be attractive to live along". Specifically, in the Keihanshin area, we will implement concrete measures by taking into consideration the market trend of each rail belt. We will also continue steadily implementing our Osaka station development projects, scheduled to be completed in the spring of 2011. In addition, we will exert our efforts to increase the number of "J-West Card" members and also enhance the convenience of our "ICOCA electronic money", as well as its use for railway services, through its mutual use with JR Kyushu's "SUGOCA" and the expansion of member stores.

With regard to our corporate social responsibility (CSR), we will further carry out our CSR with the CSR Promotion Committee acting as a central figure, and also endeavor to establish corporate ethics by taking into consideration deliberations at the "Corporate Ethics Committee", an advisory organ of the Board of Directors, and proper risk management with the Risk Management Committee acting as a central figure to further enhance our internal control functions. With regard to environmental matters, we will introduce energy-saving railcars and high-efficiency equipment and familiarize our "Eco Life Point" service to aggressively reduce CO<sub>2</sub> emissions and also promote our "*Kodo* (Think and Act) *Eco*" activities, in which each and every employee is encouraged to think and act for himself/herself for global environmental protection, among the entire Group. In addition, we will keep up efforts to serve to the society on a continuous and constant manner through the activities of "JR-West *Anshin* Foundation", a public-interest foundation established in consideration of the train accident on the Fukuchiyama Line.

Our business environments are expected to remain very difficult as the Japanese economy has experienced a serious slump and expressway tolls have been steeply reduced, among others. In this situation, we will implement business measures in response to changing business environments to ensure a profit, and review the systems of our operations in our whole business administration under the supervision of the "Management Improvement Headquarters" established in March 2009 to strengthen our management base, while maintaining and enhancing safety, whereby promoting management improvement in terms of both income and expenditures. In preparation for the commencement of mutual through services of the Sanyo and Kyushu Shinkansen Lines in the spring of 2011 and the completion of the Osaka station development projects, we will also exert our all-out efforts to make the most of the achievement thereof. Furthermore, based on the "JR-West Group's Medium-Term Management Plan", we will implement measures to build a brand of safety and reliability and steadily promote business strategies for sustainable growth, including the establishment of superiority of the Sanyo Shinkansen Line and the enhancement of the value of our railway belts with our railway and business creation divisions acting in unison, to enhance our corporate value on a medium- and long-term basis.

We cordially seek the continued understanding and support of our shareholders.

(5) Assets and profits for the most recent three fiscal years together with the fiscal year under review

Item	20th April 1, 2006 - Mar. 31, 2007	21st April 1, 2007 - Mar. 31, 2008	22nd (current year) April 1, 2008 - Mar. 31, 2009	23rd (current year) April 1, 2009 - Mar. 31, 2010
Operating revenues (billion yen)	1,262.9	1,290.1	1,275.3	1,190.1
Recurring profit (billion yen)	104.1	108.8	94.8	48.1
Net income (billion yen)	56.7	57.7	54.5	24.8
Net income per share (yen)	28,415	28,954	27,729	12,837
Total assets (billion yen)	2,401.6	2,462.8	2,461.8	2,546.3
Net assets (billion yen)	637.8	670.8	689.6	702.1

(6) State of major subsidiaries, etc. (as of March 31, 2010)

(i) State of major subsidiaries:

Name	Paid-in capital (million yen)	Equity ownership by the Company (%)	Main business
West Japan Railway Hotel Development Limited	18,000	100.0	Hotels
West Japan Railway Isetan Limited	12,000	60.0	Department store
Kyoto Station Building Development Co., Ltd.	6,000	61.4 (61.9)	Real estate leasing
Nippon Travel Agency Co., Ltd.	4,000	79.8	Travel agency
Chugoku JR Bus Company	2,840	100.0	Bus services
West Japan Railway Daily Service Net Company	2,300	100.0	Retail sales
West Japan JR Bus Company	2,110	100.0	Bus services
Osaka Terminal Building Company	2,000	57.4	Real estate leasing
JR-West Japan Real Estate & Development Company	620	100.0	Real estate leasing
Japan Railway West Trading Company	200	79.8 (100.0)	Wholesales
JR West Japan Communications Company	200	65.0 (100.0)	Advertising services
West Japan Electric System Co., Ltd.	81	51.5	Railway-related electric facilities

(Note) The percentages in the parentheses represent the Company's equity ownership including shares held indirectly through the subsidiaries of the Company.

(ii) State of major affiliated companies:

Name	Paid-in capital (million yen)	Equity ownership by the Company (%)	Main business
Kansai Rapid Railway Co., Ltd.	75,280	23.9 (24.1)	Railway services
Osaka Soto-Kanjo Railway Co., Ltd.	13,844	21.0 (21.9)	Railway services
Daitetsu Kogyo Co., Ltd.	1,232	36.9	Construction
Kosei Construction Co., Ltd.	780	20.3	Construction

(Note) The percentages in the parentheses represent the Company's equity ownership including shares held indirectly through the subsidiaries of the Company.

(7) Major businesses and offices (as of March 31, 2010)

The major businesses the Group engages in and the offices therefor are as follows:

(i) Transportation Business:

In addition to the railway services, the Group engages in bus services and other services.

- The Company (Kita-ku, Osaka-City)
- Chugoku JR Bus Company (Minami-ku, Hiroshima-City)
- West Japan JR Bus Company (Konohana-ku, Osaka-City)

The outline of the railway services is as follows:

Office	Route length			Number of stations	Number of rolling stock cars
	Shinkansen	Conventional railway lines	Total		
Shinkansen Administration Department	km 644.0	km 8.5	km 652.5	3	931
Kanazawa Branch	-	(28.0) 637.0	(28.0) 637.0	164	607
Kyoto Branch	-	314.0	314.0	100	547
Osaka Branch	-	392.3	392.3	154	1,462
Wakayama Branch	-	282.5	282.5	86	0
Kobe Branch	-	236.7	236.7	79	1,685
Fukuchiyama Branch	-	331.7	331.7	71	181
Okayama Branch	-	601.0	601.0	154	383
Yonago Branch	-	605.7	605.7	154	244
Hiroshima Branch	-	959.3	959.3	257	625
Total	644.0	(28.0) 4,368.7	(28.0) 5,012.7	1,222	6,665

(Note) The kilometers in the parentheses are shown separately for the Category III railway services (Nanao Line (between Wakura-Onsen and Anamizu)). The conventional railway lines of Osaka Branch include 28.6 kilometers of the Category II railway services (Kansai-Airport Line (between Rinku-Town and Kansai-Airport), JR Tozai Line (between Kyobashi and Amagasaki) and Osaka Higashi Line (between Hanaten and Kyuhoji)). The other lines are all for the Category I railway services.

Category I railway services: Transportation services provided by using its own railway tracks  
Category II railway services: Transportation services provided by leasing railway tracks from other operators  
Category III railway services: Possession of railway tracks that are used by other operators for transportation services

(ii) Sales of Goods and Food Services:

The Group engages in department store business in the Kyoto Station Building and sales of goods and food services in major stations.

- West Japan Railway Isetan Limited (Shimogyo-ku, Kyoto-City)
- West Japan Railway Daily Service Net Company (Amagasaki-City, Hyogo-Prefecture)
- Japan Railway West Trading Company (Suita-City, Osaka-Prefecture)

(iii) Real Estate Business:

The Group engages in sales and lease of real estate by use of its own real estate and operations of shopping centers.

- Kyoto Station Building Development Co., Ltd. (Shimogyo-ku, Kyoto-City)
- Osaka Terminal Building Company (Kita-ku, Osaka-City)
- JR-West Japan Real Estate & Development Company (Amagasaki-City, Hyogo-Prefecture)

(iv) Other Businesses:

The Group engages in hotel and advertising businesses by use of its own properties, travel agency business that has highly synergistic effects with its transportation services and various construction and engineering works.

- West Japan Railway Hotel Development Limited (Shimogyo-ku, Kyoto-City)
- Nippon Travel Agency Co., Ltd. (Minato-ku, Tokyo)
- JR West Japan Communications Company (Kita-ku, Osaka-City)
- West Japan Electric System Co., Ltd. (Yodogawa-ku, Osaka-City)

(8) State of employees

(as of March 31, 2010)

Classification by business segment	Number of employees (increase or decrease compared with the end of the previous fiscal year)	
Transportation Business	27,438	(+648)
Sales of Goods and Food Services	2,456	(+186)
Real Estate Business	854	(+25)
Other Businesses	15,356	(+5)
Total	46,104	(+864)

(Note) The number of employees represents the number of those actually at work in the respective segments.

## (9) Major lenders (top 10) (as of March 31, 2010)

Lender	Debt payable (billion yen)
Development Bank of Japan	67.0
Sumitomo Mitsui Banking Corporation	32.4
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	31.8
Mizuho Corporate Bank, Ltd.	29.5
Nippon Life Insurance Company	24.5
The Norinchukin Bank	20.0
Sumitomo Life Insurance Company	13.0
The Sumitomo Trust and Banking Company, Limited	11.5
Resona Bank, Limited	10.1
Hyogo Prefecture	9.9

## 2. Matters concerning shares: (as of March 31, 2010)

- (1) Total number of issuable shares: 8,000,000 shares
- (2) Total number of issued shares: 2,000,000 shares  
(Note) 62,653 shares of treasury stock are included in the total number of issued shares.
- (3) Number of shareholders: 165,393 persons
- (4) Major shareholders (top 10)

Name	Number of shares (shares)	Ratio to total issued shares (%)
Japan Trustee Services Bank, Ltd. (Trust Unit)	91,716	4.73
The Master Trust Bank of Japan, Ltd. (Trust Unit)	87,623	4.52
Mizuho Corporate Bank, Ltd.	64,500	3.33
Sumitomo Mitsui Banking Corporation	64,000	3.30
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	63,000	3.25
JR-West Employee Stock-Sharing Plan	44,047	2.27
Nippon Life Insurance Company	35,000	1.81
The Sumitomo Trust and Banking Company, Limited	32,000	1.65
The Dai-Ichi Mutual Life Insurance Company	30,000	1.55
STATE STREET BANK AND TRUST COMPANY 505225	26,987	1.39

(Note) For the purpose of computing the ratios to total issued shares, 62,653 shares of treasury stock are excluded from the total number of issued shares of the Company.

### 3. Matters concerning corporate officers (as of March 31, 2010)

#### (1) Names of officers, etc.

Title	Name	Duties and major concurrent posts
Chairman and Director (Chairman of the Board of Directors)	Noritaka Kurauchi	Advisor, Sumitomo Electric Industries, Ltd.
Director	Yoshio Tateishi	Chairman and Representative Director, Omron Corporation Chairman, Kyoto Chamber of Commerce and Industry External Director, DAINIPPON SCREEN MFG CO., LTD.
Director	Akio Nomura	Counsellor, Osaka Gas Co., Ltd. External Director, Royal Hotel Co., Ltd. External Director, SHIONOGI & CO., LTD.
Director	Satoru Sone	Advisor and Guest Professor, Extension Center, Kogakuin University
Director	Tadashi Ishikawa	Partner, Oh-Ebashi LPC & Partners, Attorney at law External Corporate Auditor, Takeda Pharmaceutical Company Limited
President and Representative Director	Takayuki Sasaki	In charge of compliance, response to the victims of the derailment accident on the Fukuchiyama Line and related measures thereto, Supporting Headquarters for the Victims of the Derailment Accident on the Fukuchiyama Line of the Company and the Corporate Ethics and Risk Management Department
Executive Vice President and Representative Director	Naoki Nishikawa	Provides general assistance to President. In charge of safety enhancement, Railway Operations Headquarters, Safety Research Institute and Structural Engineering Office
Executive Vice President and Representative Director	Seiji Manabe	Provides general assistance to President. In charge of reform promotion, Corporate Planning Headquarters, Secretary Office, General Affairs Department, Corporate Communication Department, Personnel Department and Tokyo Headquarters
Director	Takashi Kondo	In charge of Inquiry & Auditing Department, Construction Department and Business Development Headquarters

Title	Name	Duties and major concurrent posts
Director	Akiyoshi Yamamoto	In charge of Osaka Branch
Director	Koichi Inoue	In charge of IT Development Headquarters, Finance Department and Marketing Division, Railway Operations Headquarters
Director	Kenji Nanakawa	In charge of safety enhancement, Deliberation Department of the Derailment Accident on the Fukuchiyama Line, Safety Promotion Department and Transport Security Systems Office, Railway Operations Headquarters
Full-time Corporate Auditor	Noboru Koide	
Full-time Corporate Auditor	Tsutomu Iwasaki	
Corporate Auditor	Kazuo Yoshida	Professor, Department of Business Administration Research, Graduate School of Kyoto University External Corporate Auditor, KYOCERA Corporation
Corporate Auditor	Ikuo Uno	Chairman and Representative Director of Nippon Life Insurance Company External Director, Panasonic Corporation External Director, FUJIKYUKO CO., LTD. External Corporate Auditor, Odakyu Electric Railway Co., Ltd. External Corporate Auditor, Tohoku Electric Power Co., Inc. External Corporate Auditor, Sumitomo Mitsui Financial Group, Inc.

- (Notes)
1. Chairman and Director Noritaka Kurauchi, Directors Yoshio Tateishi, Akio Nomura, Satoru Sone and Tadashi Ishikawa are external directors as provided for in Article 2, item 15 of the Corporation Law of Japan.
  2. Full-time Corporate Auditor Tsutomu Iwasaki, Corporate Auditors Kazuo Yoshida and Ikuo Uno are external auditors as provided for in Article 2, item 16 of the Corporation Law of Japan.
  3. The Company has no special relation with any company or institution with which the external Directors and Corporate Auditors hold concurrent posts as listed above.
  4. The following changes took place as of August 31, 2009:

President and Representative Director	Takayuki Sasaki	(Vice Chairman and Representative Director)
Executive Vice President and Representative Director	Ryuichiro Tsuchiya	(Director)
Director	Masao Yamazaki	(President and Representative Director)

The posts before the changes are shown in the parentheses.

5. The following officers retired from office during the fiscal year under review:

Title of office upon retirement	Name	Date of retirement
Executive Vice President and Representative Director	Ryuichiro Tsuchiya	Resignation: October 23, 2009
Director	Masao Yamazaki	Resignation: October 23, 2009

- (2) Total amount of remuneration, etc. for officers

Classification	Number	Amount
Director	14	¥331 million
Corporate Auditor	4	¥70 million
Total	18	¥402 million

(Note) The total amount of remuneration, etc. for eight external officers for the fiscal year under review was ¥90 million.

(3) Matters concerning external officers

Classification	Name	Major activities
External Director	Noritaka Kurauchi	Mr. Kurauchi attended all of the 13 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive.
	Yoshio Tateishi	Mr. Tateishi attended 10 of the 13 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive.
	Akio Nomura	Mr. Nomura attended 12 of the 13 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive.
	Satoru Sone	Mr. Sone attended 12 of the 13 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an academic expert.
	Tadashi Ishikawa	Mr. Ishikawa attended 12 of the 13 sessions of the Board of Directors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an attorney at law.
External Corporate Auditor	Tsutomu Iwasaki	Mr. Iwasaki attended all of the 13 sessions of the Board of Directors and all of the 13 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally with his wide experience in public administration.
	Kazuo Yoshida	Mr. Yoshida attended all of the 13 sessions of the Board of Directors and all of the 13 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally from the professional perspective of an academic expert.
	Ikuo Uno	Mr. Uno attended nine of the 13 sessions of the Board of Directors and 12 of the 13 sessions of the Board of Corporate Auditors held during the fiscal year under review and expressed his opinions from time to time, principally from the perspective of an experienced management executive.

(Notes) 1. In September 2009, a fact of solicitation for information leak came out in the process

of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission and the Company was ordered by the Ministry of Land, Infrastructure, Transport and Tourism to conduct fact-finding inquiries and report preventive measures. However, each of the external Directors had not been aware of the fact until it came out and had ordinarily expressed their views and promoted awareness from time to time from the perspectives of corporate social responsibilities and the strengthening of risk management systems. Since the fact came out, they have performed their duties for the Company to prevent a recurrence of similar problems, by presenting their recommendations with regard to the necessity to raise awareness of ethics and ensure fairness at the meetings of its Board of Directors.

2. In September 2009, a fact of solicitation for information leak came out in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission and the Company was ordered by the Ministry of Land, Infrastructure, Transport and Tourism to conduct fact-finding inquiries and report preventive measures. However, each of the external Corporate Auditors had not been aware of the fact until it came out and had ordinarily made comments from time to time from the perspectives of compliance with law. Since the fact came out, they have performed their duties for the Company to prevent a recurrence of similar problems, by requesting the Directors to ensure strict compliance with rules and regulations in the operations in general and further strengthen corporate ethical standards at the meetings of its Board of Directors.

#### **4. Matters concerning account auditors**

(1) Name of the account auditors

Ernst & Young ShinNihon LLC

(2) Amount of remuneration, etc. for the account auditors

- |      |   |              |
|------|---|--------------|
| (i)  | Amount of remuneration, etc. payable for the fiscal year under review:                            | ¥165 million |
| (ii) | Total amount of money and other proprietary benefits payable by the Company and its subsidiaries: | ¥312 million |

(Note) The amount of remuneration payable to the account auditors for their audits under the Corporation Law of Japan and the amount of remuneration payable for their audits under the Financial Instruments and Exchange Law of Japan are not specifically separated in the audit contract between the Company and the account auditors and cannot be separated practically. Hence, such amounts are stated collectively in the amount in (1) above.

(3) Content of non-auditing services

The Company has entrusted the account auditors with, and paid remuneration for, advisory services on CSR reporting and others, which services are not covered by Article 2, paragraph 1 of the Certified Public Accountant Law of Japan.

(4) Policy on determination of dismissal and non-reappointment

In the event that the account auditors are considered to fall under any of the items of Article 340, paragraph 1 of the Corporation Law of Japan or otherwise it is considered necessary by the Company, the Company shall determine to dismiss or not to reappoint the account auditors.

**5. Systems to secure the properness of business activities**

The matters concerning the establishment of the systems to secure the execution by the Directors of their duties to comply with laws or ordinances and the Articles of Incorporation and other systems to secure the properness of business activities of the Company are described below:

(1) Systems to secure the execution by the Directors and employees of their duties to comply with laws or ordinances and the Articles of Incorporation

To establish corporate ethics, the Company shall institute its code of conduct and code of ethics in accordance with its "Corporate Philosophy", make its officers comply with these codes and exercise the initiative in materializing the "Corporate Philosophy" and generate a sense of common values that will constitute the bases of honest and fair business behaviors. The Company shall establish a "Corporate Ethics Committee" with outsiders as its members as an advisory organ of its Board of Directors, which shall deliberate on and evaluate important matters for the establishment of corporate ethics and submit necessary recommendations and reports to the Board of Directors. The Company shall also accept consultations as to questionable acts from the perspective of law or corporate ethics through contacts with the "Ethics Office" of the Company and outside attorneys and improve its whistle-blowing system.

The Board of Directors of the Company shall meet once every month, in principle, to deliberate on important matters for management, report the development of execution of business and matters concerning corporate ethics on a timely and appropriate manner and monitor the execution by the Directors of their duties mutually. The Company shall make a clear distinction between Directors to engage exclusively in monitoring and supervision and Directors to execute business (concurrently serving as Executive Officers) as well, have two or more external Directors, appoint the "Chairman", who shall act as chairman of the Board of Directors, from among the external Directors, and improve the system of distributing information to the external Directors to strengthen its functions of monitoring and supervision of corporate management. In addition, the Company shall clarify the criteria for selection of Directors and Executive Officers to ensure objectivity and transparency.

With regard to the execution by the Directors and employees of their duties, the Company shall ensure transparency thereof by devising schemes that may allow checking functions, including a system of circulating requests for managerial decision, as well as various committees from time to time, and make the Inquiry & Auditing Department, responsible for internal audits, audit business of the Company in general from the perspectives of compliance with laws or ordinances and regulations.

Furthermore, for the purpose of the establishment of systems to evaluate and audit internal control over financial reporting, the Company shall maintain and improve internal control over financial reporting through the evaluation of the effectiveness thereof by the department responsible for internal audits to ensure the correctness and credibility of financial reporting.

The Directors and Executive Officers shall submit "Letters of Confirmation of Execution of Duties", which shall state that they have committed no misdeed or material violation of laws or rules in connection with the execution of their duties, at the close of each fiscal year.

Through these measures, the Company shall endeavor to improve its systems to ensure compliance with law and establish corporate ethics in its business operations in general.

- (2) Systems concerning storage and management of information on the execution by the Directors of their duties

Pursuant to laws or ordinances and the document management manuals of the Company, information on the execution by the Directors of their duties shall be prepared, stored and managed properly by the respective sections in charge thereof and shall be made available for inspection by the Directors and Corporate Auditors at all times whenever necessary.

- (3) Regulations concerning management of exposure to the risk of loss and other systems

Taking seriously that on April 25, 2006, it caused a very grave accident to occur between Tsukaguchi and Amagasaki on the Fukuchiyama Line in which 106 lives were claimed and more than 500 passengers were injured, and with a resolve never to permit the occurrence of such any accident, the Company shall set the "building of a corporate culture of placing top priority on safety" as its utmost management target and implement measures to complete the target in accordance with its "Corporate Philosophy" and "Safety Charter".

The Company shall steadily implement measures in response to remarks, including "proposals" and "opinions" stated in the report on the investigation of the train accident on the Fukuchiyama Line publicized by the Aircraft and Railway Accidents Investigation Commission in June 2007. The Company shall also steadily promote the "Basic Safety Plan" formulated in April 2008 by taking into consideration the proposals for the direction of safety enhancement measures by the Experts' Council on Safety Promotion, to promote greater safety. Furthermore, the Company shall build a stronger safety management system based on its "Railway Safety Management Manual" instituted in accordance with the amended Railway Business Law of Japan, enforced in October 2006. Additionally, the "Risk Management Committee" with the President acting as chairman shall keep track of risks and critical factors that may have material effects on management of the Company, prepare manuals and deliberate on and determine important policies to respond thereto, prepare to establish a rapid initial response system and implement appropriate measures in the event of any serious crisis, and examine and evaluate the risk management schemes and

systems.

Through these efforts, the Company shall build up a system for appropriate risk management in its business activities in general.

(4) Systems to secure efficient execution by the Directors of their duties

The Directors in charge of their respective sections shall, based on the general business plan determined by the Board of Directors at the beginning of each fiscal year, execute their duties properly with regard to the measures of the respective sections in accordance with the authority and decision-making rules under the Company's regulations of its organization and execution of business.

The Company shall convene a session of the Executive Committee consisting of the Representative Directors and Executive Officers of the Company once every week in principle, to deliberate on fundamental matters for execution of business, and introduce a system of executive officers to delegate authorities to the Executive Officers, whereby ensuring stronger functions to monitor and supervise the Board of Directors and speedier decision-making.

(5) Systems to secure the properness of business activities of the corporate group

The Company shall determine policies on the establishment of corporate ethics in the whole Group by taking into consideration deliberations at its "Corporate Ethics Committee" and determine fundamental matters for risk management of the whole Group at its "Risk Management Committee". Based on these policies and fundamental matters, each group company shall take measures to establish committees and regulations, whereby formulating a system for the establishment of corporate ethics and appropriate risk management of the whole Group. In addition, with regard to the whistle-blowing system, the Company shall respond to consultations concerning any group company through contacts established in and outside of the Company.

With regard to important managerial matters of the group companies, the Company shall establish a system to allow them to consult with the Company in advance, and the Company shall make its officers assume the offices of directors and corporate auditors of its important group companies to ensure legitimate and effective management of the Group. Furthermore, for the purpose of its internal audits, the Company shall, whenever necessary, determine if laws or ordinances and regulations concerning execution of business of the group companies are observed.

With regard to the "evaluation of internal control over financial reporting", the Company shall promote its group-wide efforts as the business on a consolidated basis is subjected to such evaluation.

(6) Matters concerning the employees to assist the Corporate Auditors to execute their duties and their independence from the Directors

The Company has appointed its employees as the Corporate Auditors' staff to engage

exclusively in assisting the Corporate Auditors and they shall execute their duties under the orders and instructions of the Corporate Auditors.

The Company shall make their personnel changes and evaluations by taking into consideration the opinions of the Corporate Auditors.

- (7) System for reporting by Directors and employees to the Corporate Auditors and other systems for reporting to the Corporate Auditors

The Directors, Executive Officers and employees shall give to the Corporate Auditors or the Board of Corporate Auditors reports promptly upon the occurrence of any grave accident, any act in violation of any law or ordinance or the Articles of Incorporation or any event that may cause material damage to the Company, as well as reports on the state of performance of internal audits, the particulars of information provided with the "Ethics Office", the particulars of the measures taken by the President's Special Aide, the details of business and problems of each section and such other matters as requested by the Corporate Auditors or the Board of Corporate Auditors from time to time and on a regular basis.

- (8) Other systems to ensure effective audits by the Corporate Auditors

The Directors of the Company shall formulate systems necessary for the Corporate Auditors to expediently perform audits, including those to allow the Corporate Auditors to attend important meetings, inspect decision documents and other important documents, cooperate with its internal audit section and account auditors and exchange opinions with the Representative Directors on a regular basis.

In addition, the sections responsible for the business offices of the Company shall coordinate and cooperate with each other to allow the Corporate Auditors to visit the offices to perform effective and efficient audits.

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2010)

<u>ASSETS</u>	(million yen)
Current assets:	223,254
Cash and deposits.....	51,314
Trade notes and accounts receivable.....	14,282
Railway fares receivable.....	22,714
Accounts receivable.....	42,038
Inventories.....	29,534
Deferred tax assets.....	17,857
Others.....	46,351
Less allowance for doubtful accounts	(840)
Fixed assets:	2,323,107
Tangible fixed assets:	2,072,276
Buildings and structures.....	989,472
Machinery, equipment and transport equipment.....	285,890
Land.....	658,809
Construction in progress.....	107,533
Other tangible fixed assets.....	30,570
Intangible fixed assets:	24,933
Investments and other assets:	225,898
Investment in securities.....	59,327
Deferred tax assets.....	139,030
Others.....	28,729
Less allowance for doubtful accounts.....	(1,188)
Deferred assets:	22
<b>TOTAL ASSETS</b>	<b><u>2,546,384</u></b>

(Note) Figures are indicated by discarding fractions of one million yen.

(million yen)

LIABILITIES

Current liabilities:	428,201
Trade notes and accounts payable.....	47,999
Short-term borrowings.....	12,932
Current portion of long-term debt.....	33,428
Current portion of long-term payables for the acquisition of railway properties.....	30,020
Current portion of long-term payables.....	31
Accounts payable.....	102,385
Accrued consumption taxes.....	1,901
Accrued income taxes.....	13,793
Railway deposits received.....	2,117
Deposits.....	50,033
Prepaid railway fares received.....	31,450
Advances received.....	35,060
Allowance for bonuses.....	33,032
Allowance for rewards based on points.....	580
Others.....	33,435
Long-term liabilities:	1,416,040
Bonds.....	384,968
Long-term debt.....	260,820
Long-term payables for the acquisition of railway properties.....	329,474
Long-term payables.....	222
Deferred tax liabilities.....	213
Retirement allowances for employees.....	324,801
Allowance for environment and safety measures.....	9,039
Allowance for gift certificates yet to be redeemed.....	2,715
Others.....	103,785
<b>TOTAL LIABILITIES</b>	<b><u>1,844,242</u></b>
<u>NET ASSETS</u>	
Shareholders' equity:	667,980
Common stock.....	100,000
Capital surplus.....	55,000
Retained earnings.....	543,323
Treasury stock.....	(30,343)
Evaluation and exchange differences, etc.:	1,183
Evaluation difference on other securities.....	1,292
Deferred hedge income (loss).....	(108)
Minority interests:	32,977
<b>TOTAL NET ASSETS</b>	<b><u>702,141</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>2,546,384</u></b>

(Note) Figures are indicated by discarding fractions of one million yen.

## CONSOLIDATED STATEMENT OF INCOME

(From April 1, 2009 to March 31, 2010)

(million yen)

Operating revenues		1,190,135
Operating expenses		
Transportation and other services and cost of sales	915,865	
Selling, general and administrative expenses	197,739	1,113,605
Operating income		76,530
Non-operating income		
Interest income	212	
Dividend income	420	
Equity in earnings of affiliates	807	
Others	6,226	7,666
Non-operating expenses		
Interest expenses	34,309	
Others	1,781	36,090
Recurring profit		48,106
Extraordinary profits:		
Proceeds from construction contract	35,961	
Expropriation compensation	6,281	
Others	12,191	54,434
Extraordinary expenses:		
Loss on reduction entry of proceeds from construction	35,200	
Loss on reduction entry of expropriation	6,217	
Others	17,428	58,847
Income before income tax		43,693
Corporation, inhabitant and enterprise taxes		31,047
Income taxes – deferred		(11,820)
Minority interest (loss)		(391)
Net income		24,858

(Note) Figures are indicated by discarding fractions of one million yen.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.**

(From April 1, 2009 to March 31, 2010)

	Shareholders' equity					Evaluation and exchange differences, etc.			Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Evaluation difference on other securities	Deferred hedge income (loss)	Total evaluation and exchange differences, etc.		
Balance as of March 31, 2009	100,000	55,000	531,236	(30,343)	655,893	1,004	(233)	770	32,938	689,602
Changes during the year:										
Distribution of surplus			(13,561)		(13,561)					(13,561)
Net income			24,858		24,858					24,858
Change of the scope of consolidation			452		452					452
Increase upon merger			337		337					337
Changes in items other than shareholders' equity during the year (net)						288	124	412	39	451
Total changes during the year	-	-	12,086	-	12,086	288	124	412	39	12,538
Balance as of March 31, 2010	100,000	55,000	543,323	(30,343)	667,980	1,292	(108)	1,183	32,977	702,141

(Note) Figures are indicated by discarding fractions of one million yen.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2009 to March 31, 2010)

(Note) Figures are indicated by discarding fractions of one million yen.

### **I. Notes on important information constituting the basis of preparation of consolidated financial statements**

#### 1. Matters concerning the scope of consolidation

##### (1) Number of consolidated subsidiaries: 65

The consolidated subsidiaries of the Company are West Japan Railway Hotel Development Limited, West Japan Railway Isetan Limited, Kyoto Station Building Development Co., Ltd., Nippon Travel Agency Co., Ltd., Chugoku JR Bus Company, West Japan Railway Daily Service Net Company, West Japan JR Bus Company, Osaka Terminal Building Company, JR-West Japan Real Estate & Development Company, Japan Railway West Trading Company, JR West Japan Communications Company, West Japan Electric System Co., Ltd. and 53 others.

As from the fiscal year under review, JR West Miyajima Ferry Co. Ltd. is included in the scope of consolidation due to its increased importance. As of April 1, 2009, Sanyo Station Development Co., Ltd. was merged into Okayama Station Center Co., Ltd., which, as a surviving company, has changed its trade name to Sanyo SC Development Co., Ltd. As of April 1, 2009, West-Japan Railways Financial Services, which demerged and transferred part of its business to West Japan Railway Daily Service Net Company and West Japan Railway WelNet Co., Ltd., was merged into Japan Railway West Trading Company.

As of July 1, 2009, Eki Rent-A-Car Chugoku Company was merged into Eki Rent-A-Car Kansai Company, which, as a surviving company, has changed its trade name to West Japan Railway Rent-a-Car and Leasing Co., Ltd.

As of October 1, 2009, Shinko Construction Machinery Co., Ltd., a non-consolidated subsidiary, acquired part of the business of WEST JAPAN RAILWAY TECHNOS CORPORATION upon its spin-off and changed its trade name to West Japan Railway Techsia Co., Ltd. As a result, as from the fiscal year under review, West Japan Railway Techsia Co., Ltd. is included in the scope of consolidation due to its increased importance.

- (2) The Company has 80 non-consolidated subsidiaries, including Osaka Energy Service Co., Ltd. These companies are excluded from the scope of consolidation, because their aggregate amounts of total assets, net sales, net income or loss (equal to the equity share) and retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.

2. Matters concerning the application of the equity method

- (1) The Company has no non-consolidated subsidiary subject to the equity method.
- (2) The equity method is applied to the investments in five affiliated companies: Osaka Soto-Kanjo Railway Co., Ltd., Kansai Rapid Railway Co., Ltd., Daitetsu Kogyo Co., Ltd., Kosei Construction Co., Ltd. and Railway Information Systems Co., Ltd.
- (3) These 80 non-consolidated subsidiaries and 16 affiliated companies, including Nara Hotel Co., Ltd. are excluded from the scope of the application of the equity method, because their aggregate amounts of net income or loss (equal to the equity share) and retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.

3. Matters concerning the fiscal years of the consolidated subsidiaries

The date of the closing of accounts of Nippon Travel Agency Co., Ltd. is December 31 of each year and its financial statements as of the date of the closing of accounts are used for the purpose of preparing the consolidated financial statements. Significant transactions up to the date of the closing of consolidated accounts are adequately adjusted for the purpose of consolidation. The date of the closing of accounts of any other consolidated subsidiary is March 31 of each year, which corresponds to the date of the closing of consolidated accounts.

4. Matters concerning the accounting standards

(1) Basis and method of valuation of important assets:

(i) Marketable securities:

Other marketable securities:

Those with market value: At market value, determined by market prices, etc. as of the close of the fiscal year (Revaluation differences are all transferred directly to net assets. Selling costs are determined principally by the moving average method.)

Those without market value: At cost, determined principally by the moving average method

(ii) Inventories:

Goods: At cost, determined principally by the retail inventory method and the latest purchase cost method

Real estate for sale:	At cost, determined by the identified cost method
Work in process:	At cost, determined principally by the identified cost method
Materials and supplies:	At cost, determined principally by the moving average method

The balance sheet values are calculated by the write-down method based on declined margins.

(2) Method of depreciation of important depreciable assets:

(i) Tangible fixed assets (excluding leased assets):

Tangible fixed assets are depreciated principally by the declining balance method; provided, however, that the replacement cost method is applicable to replacement assets for railway services.

(ii) Intangible fixed assets:

Intangible fixed assets are depreciated by the straight-line method. Software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).

(iii) Leased assets:

Leased assets related to finance lease transactions that do not transfer ownership:

Leased assets are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction other than those in which ownership of a leased asset is deemed to pass to its lessee, which became effective prior to the fiscal year during which the Accounting Standards Board of Japan ("ASBJ") Corporate Accounting Standard No. 13 "Accounting Standard for Lease Transactions" first became applicable, is treated similarly in the manner in which ordinary lease transactions are treated.

(iv) Long-term prepaid expenses:

Long-term prepaid expenses are written off in equal amounts.

(3) Method of treatment of deferred assets:

Bond issuing expenses are all treated as expenses upon payment thereof.

Development expenses of the consolidated subsidiaries are amortized regularly over their

respective effective periods.

(4) Basis for accounting for important allowances and accrued liabilities:

(i) Allowance for doubtful accounts:

To meet losses from loan default, the Group sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.

(ii) Allowance for bonuses:

To meet the payment of bonuses to employees, the Group sets aside an estimated amount of bonuses to be paid for each current fiscal year.

(iii) Retirement allowances for employees:

To meet the payment of retirement benefits to employees, the Group provides an amount, based on estimated retirement benefit obligations and pension plan assets as of the close of each current fiscal year.

The difference of ¥321,242 million upon the change of accounting standards for employee retirement benefits is treated as expenses, and is amortized principally on a straight-line basis for a period of 10 years.

Actuarial differences are treated principally as expenses from the fiscal year next following the fiscal year when such differences occur, and are amortized principally on a straight-line basis for a specific period of years (principally, 10 years) not exceeding the average remaining years of service of employees when such differences occur.

(iv) Allowance for environment and safety measures:

To meet the payment for expenses of disposal of PCB and other wastes, the Group provides an estimated amount of disposal expenses at the close of each current fiscal year.

To meet the payment for expenses of disposal of contaminated soil on certain lands held by the Company for development, the Company provides an estimated amount of disposal expenses at the close of each current fiscal year.

(v) Allowance for gift certificates yet to be redeemed:

To meet the future redemption of gift certificates issued by some consolidated subsidiaries and recorded as income after the lapse of a certain period after the issuance thereof, the Group provides an amount of future redemption reasonably

estimated based on the past redemption rate at the close of each current fiscal year.

(vi) Allowance for rewards based on points:

To meet the future use of points given to customers, the Group provides an amount of future rewards estimated at the close of each current fiscal year.

(5) Accounting treatment of proceeds from construction contract:

For the purpose of construction to elevate railway tracks and other works for its railway operations, the Company receives from local municipal entities contributions to pay for part of such construction. An amount equivalent to such contributions is deducted directly from acquisition costs of the fixed assets so acquired upon the completion of such construction.

In the consolidated statement of income, the Group accounts for such contributions received for construction as an extraordinary profit and accounts for such amount directly deducted from acquisition costs of the fixed assets, as a loss on reduction entry of proceeds from construction, as an extraordinary expense.

(6) Standard for recognizing revenues and costs of completed construction projects:

The percentage-of-completion method is applicable to construction projects for which the percentage of completion at the close of each current fiscal year can be reliably estimated and the completed-contract method is applicable to contracts for other construction projects. Estimates of the percentage of completion of construction projects to which the percentage-of-completion method is applicable are made mainly by calculating the percentage of the cost incurred to the estimated total cost.

(7) Accounting treatment of consumption taxes:

Consumption taxes are excluded from each account subject to such taxes.

5. Matters concerning the valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are valued based on the overall market value method.

6. Matters concerning the amortization of goodwill and negative goodwill

Goodwill and negative goodwill are amortized equally over five years.

7. Changes in the important matters forming the basis of preparation of consolidated financial statements

(1) Change in standard for recognizing revenues and costs of completed construction projects:

In its accounting standard for recognizing revenues and costs of construction contracts, as from the fiscal year under review, the Company has applied "Accounting Standard for Construction Contracts" (ASBJ Corporate Accounting Standard No. 15 (December 27, 2007)) and "Implementation Guidance on Accounting Standard for Construction Contracts" (ASBJ Implementation Guidance No. 18 (December 27, 2007)). As a result, in its calculation of the percentage of completion at the close of the fiscal year under review for construction contracts that commenced on or after April 1, 2009, the Company has used the percentage-of-completion method for construction projects for which the percentage of completion can be reliably estimated (estimates of the percentage of completion are made mainly by calculating the percentage of the cost incurred to the estimated total cost), and the completed-contract method for other construction projects.

The change has no significant effect on the consolidated financial statements.

(2) Change in valuation standard for marketable securities:

As from the fiscal year under review, the Company has applied "Accounting Standard for Financial Instruments" (ASBJ Corporate Accounting Standard No. 10, as revised on March 30, 2008). The balance sheet value of available-for-sale securities without market value, of which it is possible to estimate the future cash flow, is stated as the present value of the future cash flow discounted at an appropriate rate plus the yield spread on government bonds.

The change has no significant effect on the consolidated financial statements.

(3) Change in calculation method for retirement allowances for employees:

As from the fiscal year under review, the Company has applied "Partial Amendment to 'Accounting Standard for Retirement Benefits' (Part III)" (ASBJ Corporate Accounting Standard No. 19 (July 31, 2008)).

There was no actuarial difference as a result of this change, which has no effect on the consolidated financial statements.

## II. Notes to consolidated balance sheet, etc.

### 1. Assets pledged

#### Assets pledged:

Deposits	¥230 million
Buildings and structures	¥18,831 million
Land	¥190 million
Investment in securities	¥60 million
Total	¥19,311 million

#### Secured liabilities:

Long-term debt	¥4,570 million
Current portion of long-term debt	¥610 million
Other current liabilities	¥1,844 million
Total	¥7,024 million

In addition, pursuant to Article 7 of the Supplementary Provisions to the Law to Amend Part of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Law No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥110,000 million).

2. Accumulated depreciation of tangible fixed assets: ¥2,809,076 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥603,841 million

### 4. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	7,800	Commitment to guarantee for loans from financial institutions
Nichiryō Service Co., Ltd.	393	Guarantee for sale of JR tickets on consignment
Nichiryō-OMC Co., Ltd.	231	Guarantee for payment for air fares
Others (7 companies)	175	
Total	8,600	

5. Matters concerning the train accident on the Fukuchiyama Line

Expenses resulting from the train accident on the Fukuchiyama Line, including compensation, are anticipated. However, it is difficult to reasonably estimate the amount thereof at present.

**III. Notes to consolidated statement of changes in shareholders' equity, etc.**

1. Matters concerning the class and number of shares issued and outstanding

Class	Number of shares as of March 31, 2009 (shares)	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2010 (shares)
Shares of common stock	2,000,000	-	-	2,000,000

2. Matters concerning the class and number of shares of treasury stock

Class	Number of shares as of March 31, 2009 (shares)	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2010 (shares)
Shares of common stock	63,584	-	-	63,584

3. Matters concerning dividends

(1) Amount of dividends paid:

Resolution	Class of shares	Total amount of dividends (million yen)	Amount of dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 23, 2009	Shares of common stock	6,780	3,500	March 31, 2009	June 24, 2009
Meeting of the Board of Directors held on October 28, 2009	Shares of common stock	6,780	3,500	September 30, 2009	November 27, 2009

- (2) Dividends for which the record date falls during the fiscal year under review but the effective date falls during the next fiscal year:

Resolution (expected)	Class of shares	Total amount of dividends (million yen)	Source of dividends	Amount of dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 23, 2010	Shares of common stock	6,780	Retained earnings	3,500	March 31, 2010	June 24, 2010

#### IV. Notes to financial instruments

##### 1. Matters relating to the status of financial instruments

###### (1) Policy in relation to financial instruments:

The Group raises funds (principally through bond issues and long-term debt from banks and others) for funds for repayment of its existing loans and capital investments that cannot be covered by cash flows. Floating money is invested in high-security financial assets and short-term operating funds are provided principally by short-term bond issues. The Group uses derivatives to reduce risks, as described below, and has a policy not to conduct speculative trading.

###### (2) Details of financial instruments and related risks:

Trade receivables – trade notes and accounts receivable, railway fares receivable and accounts receivable – are exposed to credit risk in relation to customers. Investments in securities, which principally consist of shares in the companies with which the Group has business relationships, are exposed to market risk.

Substantially all of trade payables – trade notes and accounts payable, accounts payable, railway deposits received and deposits – have payment due dates within one year. Trade payables in foreign currencies are exposed to foreign currency risk. However, with regard to trade payables in foreign currencies related to overseas travel business, the Group uses exchange contracts to hedge risk, in principle. Bonds and loans are funds raised principally to repay its existing loans and make capital investments, which will be redeemed in 24 years maximum after the close of the fiscal year under review. Certain bonds and loans with floating rates are exposed to interest volatility risk. Long-term payables for the acquisition of railway properties and long-term payables comprise principally of liabilities for consideration for the Shinkansen railway facilities transferred from the Japan Railway Construction, Transport and Technology Agency pursuant to the Law Related to the Transfer of the Shinkansen Railway Facilities (1991 Law No. 45), payable in semiannual installments calculated using the equal payment method, whereby principal and interest are paid in equal amounts semiannually, in 41 years maximum after the close of the fiscal year

under review. Some of such long-term payables with floating rates are exposed to interest volatility risk.

Derivatives are exchange contracts to hedge foreign currency risk involving trade payables in foreign currencies.

(3) Risk management system relating to financial instruments:

(i) Management of credit risk (risk relating to clients' contractual defaults, etc.):

The Company, in accordance with its internal rules, manages the due dates and balances of its trade receivables by client to early detect or reduce credits that may become uncollectable due to the deterioration of its financial position or other reasons. Likewise, its consolidated subsidiaries, in accordance with their respective internal rules, manage their trade receivables.

With regard to derivatives, the Company enters into transactions solely with financial institutions with high ratings to avert counterparty risk.

The maximum amount of credit risk as of the close of the fiscal year under review is stated in the amount of financial assets exposed to credit risk recorded on the consolidated balance sheet.

(ii) Management of market risk (foreign currency and interest rate risk):

With regard to trade payables in foreign currencies, some of the consolidated subsidiaries of the Company use exchange contracts to hedge foreign currency risk, detected by currency and by month, in principle. According to exchange rates, the relevant subsidiary, at the launch of overseas travel products, enters into exchange contracts for trade payables in foreign currencies for a semiannual period by taking into consideration the past performance and the status of booking thereof.

With regard to investment in securities, the Company periodically gains information on the market values and financial standings of the issuers and review the holding of securities other than those held to maturity on a continuous basis by taking into consideration the relationships with the issuers thereof.

With regard to derivatives, some of its consolidated subsidiaries, in accordance with their respective regulations to administer foreign exchange transactions that provide for trading authorities and maximum amounts, among others, approve their basic policies at their foreign exchange councils semiannually and accordingly allow their respective accounting departments to engage in transactions and check the balance with the counterparties. At some of the consolidated subsidiaries, these transactions are administered by their respective administrative departments upon request from the business sections of each branch office and their internal auditing divisions manage risk through periodic monitoring systems.

(iii) Management of liquidity risk relating to fund-raising (risk of default of payment when due):

The Company prepares and revises cash flow projections on a timely basis based on its divisions, departments and sections and its group companies to manage liquidity risk. The Company also enters into commitment line agreements that make available funds under predetermined terms to secure stable liquidity on hand.

(4) Supplementary explanation of matters relating to the fair values, etc. of financial instruments:

The fair values of financial instruments include market prices and reasonably estimated values if there are no market prices. As the estimation of fair values incorporates variable factors, adopting different assumptions may change the values.

2. Matters concerning fair values, etc. of financial instruments

The following chart shows amounts for items recorded in the consolidated balance sheet as of March 31, 2010 (the consolidated settlement date for the fiscal year under review), along with their fair values and the variances. Items for which determining the fair values is recognized as being extremely difficult are not included in the chart. (See Note 2)

(million yen)			
	Balance sheet amount	Fair value	Difference
(1) Cash and deposits	51,314	51,314	-
(2) Trade notes and accounts receivable	14,282	14,282	-
(3) Railway fares receivable	22,714	22,714	-
(4) Accounts receivable	42,038	42,038	-
(5) Investment in securities: Other marketable securities	8,543	8,543	-
(6) Trade notes and accounts payable	(47,999)	(47,999)	-
(7) Short-term borrowings	(12,932)	(12,932)	-
(8) Accounts payable	(102,385)	(102,385)	-
(9) Railway deposits received	(2,117)	(2,117)	-
(10) Deposits	(50,033)	(50,033)	-
(11) Bonds (including current portion of bonds)	(384,968)	(404,502)	(19,534)
(12) Long-term debt (including current portion of long-term debt)	(294,249)	(299,927)	(5,678)
(13) Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties)	(359,494)	(491,197)	(131,702)
(14) Long-term payables (including current portion of long-term payables)	(253)	(271)	(18)
(15) Derivatives	(231)	(231)	-

Figures in parentheses ( ) are stated in liabilities.

(Note 1) Matters concerning the calculation method of the fair values of financial instruments, as well as marketable securities and derivatives:

- (1) Cash and deposits, (2) Trade notes and accounts receivable, (3) Railway fares receivable and (4) Accounts receivable:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

- (5) Investment in securities:

The fair value of investment securities is determined by the price of the stock traded on an exchange. For bonds, the value is determined by the price on an exchange or calculated from the present value of the future cash flow discounted at an appropriate rate plus the yield spread on government bonds.

- (6) Trade notes and accounts payable, (7) Short-term borrowings, (8) Accounts payable, (9) Railway deposits received and (10) Deposits:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

- (11) Bonds (including current portion of bonds):

The fair value of bonds issued by the Company is calculated based on the market price.

- (12) Long-term debt (including current portion of long-term debt) and (14) Long-term payables (including current portion of long-term payables):

The fair value of these items is calculated from the present value of the total principal and interest discounted at a rate supposing newly conducted similar borrowing.

- (13) Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties):

The fair value of long-term payables for the acquisition of railway properties is calculated based on the present value of the total principal and interest discounted at a rate supposing newly issued similar bonds, due to the difficulty of refinancing the debt acquired based on relevant laws by similar methods.

- (14) Derivatives:

The fair value of derivatives is based on the market price and other information shown by the Company's financial institutions.

(Note 2) Financial instruments for which determining the market values is recognized as being extremely difficult:

(million yen)

Item	Balance sheet amount
Investment in securities	
Other marketable securities	
Unlisted shares	2,276
Others	44

These items have no market price and it is impossible to estimate their future cash flow. As determining the market value is recognized as being extremely difficult, they are not included in "(5) Investments in securities – Other marketable securities".

## V. Notes to leased and other real estate properties

### 1. Matters concerning the status of leased and other real estate properties

The Company and some of its subsidiaries hold real estate properties for lease, including office buildings, commercial facilities (with land) and residential buildings, in Osaka-Prefecture and other regions.

### 2. Matters concerning the market value of leased and other real estate properties

(million yen)

Balance sheet amount	Fair value
111,110	203,145

(Note 1) The balance sheet amount is the acquisition amount less accumulated depreciation and impairment loss.

(Note 2) The fair value of major properties at the close of the fiscal year under review is calculated based on real-estate appraisal standards. The fair value of other properties is recorded as the assessed value or balance sheet amount as a certain portion of the relevant assessed value can be considered to be properly reflected in the market price.

## VI. Notes to information per share

1. Net assets per share:	¥345,568.31
2. Net income per share:	¥12,837.31

**BALANCE SHEET**  
(As of March 31, 2010)

	(million yen)
<b><u>ASSETS</u></b>	
Current assets:	157,501
Cash and deposits.....	41,781
Railway fares receivable.....	23,585
Accounts receivable.....	25,492
Accrued income.....	4,419
Short-term loans.....	15,798
Materials and supplies.....	10,411
Prepaid expenses.....	1,972
Deferred tax assets.....	12,686
Others.....	21,800
Less allowance for doubtful accounts.....	(447)
Fixed assets:	2,129,448
Fixed assets for railway operations.....	1,608,121
Fixed assets for related businesses.....	55,477
Other relevant fixed assets.....	71,306
Construction in progress.....	65,526
Investments and other assets.....	329,015
Stocks of affiliates.....	139,570
Investment in securities.....	9,944
Long-term loans receivable.....	48,975
Long-term prepaid expenses.....	3,489
Deferred tax assets.....	119,965
Others.....	7,343
Less allowance for doubtful accounts.....	(273)
<b>TOTAL ASSETS</b>	<b><u>2,286,949</u></b>

(Note) Figures are indicated by discarding fractions of one million yen.

<u>LIABILITIES</u>	(million yen)
Current liabilities:	429,312
Short-term borrowings .....	109,910
Current portion of long-term debt.....	30,962
Current portion of long-term payables for acquisition of railway properties ..	30,020
Current portion of long-term payables.....	288
Other accounts payable .....	131,918
Accrued expenses.....	16,411
Accrued income taxes .....	8,434
Railway deposits received.....	2,142
Deposits .....	10,738
Prepaid railway fares received .....	31,303
Advances received .....	31,820
Prepaid income received .....	243
Allowance for bonuses.....	24,624
Allowance for rewards based on points .....	302
Others .....	194
Long-term liabilities:	1,289,534
Bonds .....	384,968
Long-term debt.....	245,257
Long-term payables for acquisition of railway properties.....	329,474
Other long-term payables.....	1,112
Retirement allowances for employees .....	303,883
Allowance for environment and safety measures .....	9,039
Others .....	15,799
<b>TOTAL LIABILITIES</b>	<b><u>1,718,846</u></b>
 <u>NET ASSETS</u>	
Shareholders' equity:	567,024
Common stock .....	100,000
Capital surplus .....	55,000
Capital reserve .....	55,000
Retained earnings.....	442,024
Retained earnings reserve .....	11,327
Other retained earnings.....	430,696
Reserve for advanced depreciation of fixed assets .....	20,587
General reserve .....	350,000
Retained earnings carried forward .....	60,109
Treasury stock.....	(29,999)
Evaluation and exchange differences, etc.:	1,077
Evaluation difference on other securities.....	1,077
<b>TOTAL NET ASSETS</b>	<b><u>568,102</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>2,286,949</u></b>

(Note) Figures are indicated by discarding fractions of one million yen.

## STATEMENT OF INCOME

(From April 1, 2009 to March 31, 2010)

(million yen)

Railway operations		
Operating revenues	795,668	
Operating expenses	750,914	
Operating income		44,754
Related businesses		
Operating revenues	21,116	
Operating expenses	7,366	
Operating income		13,749
Operating income		58,503
Non-operating income		
Interest and dividend income	1,232	
Others	4,835	6,068
Non-operating expenses		
Interest expenses and bond interest	34,152	
Others	618	34,771
Recurring profit		29,800
Extraordinary profits		
Proceeds from construction contract	35,961	
Expropriation compensation	6,188	
Gain on sale of fixed assets	7,157	
Others	3,507	52,814
Extraordinary expenses		
Loss on reduction entry of proceeds from construction	35,200	
Loss on reduction entry of expropriation	6,124	
Others	7,010	48,335
Income before income tax		34,279
Corporation, inhabitant and enterprise taxes		22,246
Income taxes - deferred		(8,544)
Net income		20,577

(Note) Figures are indicated by discarding fractions of one million yen.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.**

(From April 1, 2009 to March 31, 2010)

	Shareholders' equity								Evaluation and exchange differences, etc.	Total net assets	
	Common stock	Capital surplus	Retained earnings					Treasury stock			Total shareholder equity
			Retained earnings reserve	Other retained earnings		Total retained earnings					
				Reserve for advanced depreciation of fixed assets	General reserve		Retained earnings carried forward				
Balance as of March 31, 2009	100,000	55,000	11,327	18,102	320,000	85,578	435,008	(29,999)	560,009	780	560,789
Changes during the year:											
Distribution of surplus						(13,561)	(13,561)		(13,561)		(13,561)
Net income						20,577	20,577		20,577		20,577
Transfer to reserve for advanced depreciation of fixed assets				3,893		(3,893)	-		-		-
Reversal of reserve for advanced depreciation of fixed assets				(1,408)		1,408	-		-		-
Transfer to general reserve					30,000	(30,000)	-		-		-
Changes in items other than shareholders' equity during the year (net)										297	297
Total changes during the year	-	-	-	2,485	30,000	(25,469)	7,015		7,015	297	7,313
Balance as of March 31, 2010	100,000	55,000	11,327	20,587	350,000	60,109	442,024	(29,999)	567,024	1,077	568,102

(Note) Figures are indicated by discarding fractions of one million yen.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2009 to March 31, 2010)

(Note) Figures are indicated by discarding fractions of one million yen.

### **I. Notes on the matters concerning significant accounting policies:**

#### 1. Basis and method of valuation of assets

##### (1) Basis and method of valuation of marketable securities:

(i) Stocks of subsidiaries and affiliates: At cost, determined by the moving average method

(ii) Other marketable securities:

Those with market value: At market value, determined by market prices, etc. as of the close of the fiscal year (Revaluation differences are all transferred directly to net assets. Selling costs are determined by the moving average method.)

Those without market value: At cost, determined by the moving average method

##### (2) Basis and method of evaluation of inventories:

Materials and supplies: At cost, determined by the moving average method (The balance sheet values are calculated by the write-down method based on declined margins.)

#### 2. Method of depreciation of fixed assets:

##### (1) Tangible fixed assets (excluding leased assets):

Declining balance method; provided, however, that the replacement cost method is applicable to replacement assets for railway services.

##### (2) Intangible fixed assets:

Intangible fixed assets are depreciated by the straight-line method. Software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).

##### (3) Leased assets:

Leased assets related to finance lease transactions that do not transfer ownership:

Leased assets are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction other than those in which ownership of a leased asset is deemed to pass to its lessee, which became effective prior to the fiscal year during which the Accounting Standards Board of Japan ("ASBJ") Corporate Accounting Standard No. 13 "Accounting Standard for Lease Transactions" first became applicable, is treated similarly in the manner in which ordinary lease transactions are treated.

(4) Long-term prepaid expenses:

Long-term prepaid expenses are written off in equal amounts.

3. Method of treatment of deferred assets

Bond issuing expenses are all treated as expenses upon payment thereof.

4. Basis for accounting for allowances and accrued liabilities

(1) Allowance for doubtful accounts

To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.

(2) Allowance for bonuses:

To meet the payment of bonuses to employees, the Company sets aside an estimated amount of bonuses to be paid for each current fiscal year.

(3) Retirement allowances for employees:

To meet the payment of retirement benefits to employees, the Company provides an amount, based on estimated retirement benefit obligations as of the close of each current fiscal year.

The difference of ¥301,642 million upon the change of accounting standards for employee retirement benefits is treated as expenses, and is amortized on a straight-line basis for a period of 10 years.

Actuarial differences are treated as expenses from the fiscal year next following the fiscal year when such differences occur, and are amortized on a straight-line basis for a specific period of years (10 years) not exceeding the average remaining years of service of employees when such differences occur.

(4) Allowance for environment and safety measures:

To meet the payment for expenses of disposal of PCB and other wastes, the Company provides an estimated amount of disposal expenses at the close of each current fiscal year.

To meet the payment for expenses of disposal of contaminated soil on certain lands held by the Company for development, the Company provides an estimated amount of disposal expenses at the close of each current fiscal year.

(5) Allowance for rewards based on points:

To meet the future use of points given to J-West Card members, the Company provides an amount of future rewards estimated at the close of each current fiscal year.

5. Accounting treatment of proceeds from construction contract

For the purpose of construction to elevate railway tracks and other works for its railway operations, the Company receives from local municipal entities contributions to pay for part of such construction. An amount equivalent to such contributions is deducted directly from acquisition costs of the fixed assets so acquired upon the completion of such construction.

In the statement of income, the Company accounts for such contributions received for construction as an extraordinary profit and accounts for such amount directly deducted from acquisition costs of the fixed assets, as a loss on reduction entry of proceeds from construction, as an extraordinary expense.

6. Accounting treatment of consumption taxes

Consumption taxes are excluded from each account subject to such taxes.

7. Changes in the important matters forming the basis of preparation of financial statements

(1) Change in valuation standard for marketable securities:

As from the fiscal year under review, the Company has applied "Accounting Standard for Financial Instruments" (ASBJ Corporate Accounting Standard No. 10, as revised on March 30, 2008). The balance sheet value of available-for-sale securities without market value, of which it is possible to estimate the future cash flow, is stated as the present value of the future cash flow discounted at an appropriate rate plus the yield spread on government bonds.

The change has no significant effect on the financial statements.

(2) Change in calculation method for retirement allowances for employees:

As from the fiscal year under review, the Company has applied "Partial Amendment to

'Accounting Standard for Retirement Benefits' (Part III)" (ASBJ Corporate Accounting Standard No. 19 (July 31, 2008)).

There was no actuarial difference as a result of this change, which has no effect on the financial statements.

## II. Notes to balance sheet, etc.

### 1. Assets pledged

Pursuant to Article 7 of the Supplementary Provisions to the Law to Amend Part of the Law Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Law No. 61) of Japan, the entire property of the Company is subject to statutory preferential rights for the security of all bonds (¥110,000 million).

2. Accumulated depreciation of tangible fixed assets: ¥2,573,134 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥603,841 million

### 4. Total amount of fixed assets by item

Tangible fixed assets	¥1,714,233 million
Land	¥640,813 million
Buildings	¥115,489 million
Structures	¥667,666 million
Rolling stock	¥200,511 million
Others	¥89,753 million
Intangible fixed assets	¥20,673 million

### 5. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Kyoto Station Building Development Co., Ltd.	11,449	Commitment to guarantee for loans from financial institutions
Osaka Soto-Kanjo Railway Co., Ltd.	7,800	
Hotel Granvia Okayama Co., Ltd.	1,400	Guarantee for loans from financial institutions
JR West Miyajima Ferry Co. Ltd.	253	Guarantee for the amount payable to Japan Railway Construction, Transport and Technology Agency
Hotel Granvia Osaka Co., Ltd. and 2 other companies	21	Guarantee for the balance of prepaid cards issued
Total	20,925	

6.	Long-term receivables from affiliates:	¥50,469 million
7.	Short-term receivables from affiliates:	¥21,047 million
8.	Long-term payables to affiliates:	¥3,881 million
9.	Short-term payables to affiliates:	¥212,600 million
10.	Matters concerning the train accident on the Fukuchiyama Line:	

Expenses resulting from the train accident on the Fukuchiyama Line, including compensation, are anticipated. However, it is difficult to reasonably estimate the amount thereof at present.

### III. Notes to statement of income

1.	Operating revenues:	¥816,784 million
2.	Operating expenses:	
	Delivery expenses and cost of sales:	¥534,595 million
	Railway operations	¥534,591 million
	Related businesses	¥4 million
	Selling, general and administrative expenses:	¥74,356 million
	Railway operations	¥69,363 million
	Related businesses	¥4,993 million
	General tax:	¥29,359 million
	Depreciation expenses:	¥119,969 million
3.	Transactions with affiliates:	
	Operating revenues:	¥35,580 million
	Operating expenses:	¥179,492 million
	Transactions other than ordinary business:	¥121,048 million

### IV. Note to statement of changes in shareholders' equity, etc.

Class and number of shares of treasury stock at the end of the fiscal year under review:

Shares of common stock:	62,653 shares
-------------------------	---------------

## V. Notes to tax effect accounting

### 1. Principal details of deferred tax assets

Allowance for bonuses	¥10,019 million
Accrued social insurance contributions	¥1,262 million
Accrued enterprise taxes	¥889 million
Retirement allowance for employees	¥123,649 million
Allowance for environment and safety measures	¥3,729 million
Others	¥13,946 million
<hr/>	
Subtotal of deferred tax assets	¥153,497 million
Valuation reserve	(¥5,981 million)
<hr/>	
Total deferred tax assets	¥147,515 million

### 2. Principal details of deferred tax liabilities

Evaluation difference on other securities	(¥739 million)
Reserve for advanced depreciation of fixed assets	(¥14,124 million)
<hr/>	
Total deferred tax liabilities	(¥14,863 million)

3. Deferred tax assets – net ¥132,651 million

## **VI. Notes to fixed assets used on lease**

In addition to the fixed assets listed in the balance sheet, part of office equipment is used pursuant to finance lease agreements that do not transfer ownership thereof:

- |   |              |
|---|--------------|
| 1. Amount equivalent to the acquisition prices of leased assets at the end of the fiscal year under review:       | ¥744 million |
| 2. Amount equivalent to the accumulated depreciation of leased assets at the end of the fiscal year under review: | ¥481 million |
| 3. Amount equivalent to the balance of unearned rent of leased assets at the end of the fiscal year under review: | ¥262 million |

## **VII. Notes to information per share**

- |                          |             |
|--------------------------|-------------|
| 1. Net assets per share: | ¥293,237.50 |
| 2. Net income per share: | ¥10,621.42  |

INDEPENDENT AUDITORS' REPORT

May 10, 2010

The Board of Directors  
West Japan Railway Company

Ernst & Young ShinNihon LLC

Koichi Noda (seal)  
Specified and Executive Partner  
Certified Public Accountant

Mikio Konishi (seal)  
Specified and Executive Partner  
Certified Public Accountant

Yutaka Matsumura (seal)  
Specified and Executive Partner  
Certified Public Accountant

Yoshihiro Shibata (seal)  
Specified and Executive Partner  
Certified Public Accountant

We have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity, etc. and the notes to consolidated financial statements of West Japan Railway Company (the "Company"), applicable to its consolidated fiscal year from April 1, 2009 to March 31, 2010 pursuant to Article 444, paragraph 4 of the Corporation Law of Japan. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements from an independent standpoint.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require us to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence. An audit also includes assessing the accounting policies and methods of application thereof employed by management and estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We are of the opinion that the above consolidated financial statements present properly the financial position and profit and loss of the corporate group comprised of West

Japan Railway Company and its consolidated subsidiaries for the period related to the consolidated financial statements in all material respects in conformity with the corporate accounting standards generally accepted in Japan.

We have no financial interest in the Company which is required to be disclosed under the provisions of the Certified Public Accountant Law of Japan.

- END -

Copy of Audit Report of the Board of Corporate Auditors Relating to Consolidated Financial Statements

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We, the Board of Corporate Auditors of the Company, based on the audit report prepared by each Corporate Auditor on the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity, etc. and the notes to consolidated financial statements for the 23rd fiscal year from April 1, 2009 to March 31, 2010, prepared this audit report upon deliberation and hereby report as follows:

1. Method of Audit by the Corporate Auditors and the Board of Corporate Auditors and the Particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc. and received from each Corporate Auditor reports on the state of his performance of audits and the results thereof.

Each Corporate Auditor, in accordance with the audit policy, audit plans, etc., as determined by the Board of Corporate Auditors, received from Directors, employees, etc. reports on the consolidated financial statements and demanded their explanations whenever necessary. We also monitored and verified whether the Account Auditors had maintained an independent position and conducted adequate audits, and received from the Account Auditors reports on the state of performance of their duties and demanded their explanations whenever necessary. In addition, we received from the Account Auditors a notice that the "systems to secure adequate performance of duties" (as listed in the items of Article 131 of the Corporate Accounting Regulations) had been established in accordance with the "Standard for Quality Control Concerning Audits" (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary. In accordance with such methods, we investigated the consolidated financial statements for the fiscal year under review.

2. Results of Audit:

We are of the opinion that the method and results of the audit made by the Account Auditors, Ernst & Young ShinNihon LLC, are proper.

May 12, 2010

The Board of Corporate Auditors  
West Japan Railway Company

Noboru Koide (seal)  
Full-time Corporate Auditor

Tsutomu Iwasaki (seal)  
Full-time Corporate Auditor  
(External Corporate Auditor)

Kazuo Yoshida (seal)  
External Corporate Auditor

Ikuo Uno (seal)  
External Corporate Auditor

INDEPENDENT AUDITORS' REPORT

May 10, 2010

The Board of Directors  
West Japan Railway Company

Ernst & Young ShinNihon LLC

Koichi Noda (seal)  
Specified and Executive Partner  
Certified Public Accountant

Mikio Konishi (seal)  
Specified and Executive Partner  
Certified Public Accountant

Yutaka Matsumura (seal)  
Specified and Executive Partner  
Certified Public Accountant

Yoshihiro Shibata (seal)  
Specified and Executive Partner  
Certified Public Accountant

We have audited the balance sheet, the statement of income, the statement of changes in shareholders' equity, etc. and the notes to non-consolidated financial statements, and the supplementary financial schedules of West Japan Railway Company (the "Company"), applicable to its 23rd fiscal year from April 1, 2009 to March 31, 2010 pursuant to Article 436, paragraph 2, item 1 of the Corporation Law of Japan. These financial statements and the supplementary financial schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the supplementary financial schedules from an independent standpoint.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require us to obtain reasonable assurance about whether the financial statements and the supplementary financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence. An audit also includes assessing the accounting policies and methods of application thereof employed by management and estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary financial schedules. We believe that our audit provides a reasonable basis for our opinion.

We are of the opinion that the above financial statements and the supplementary financial schedules present properly the financial position and profit and loss for the period related to the financial statements and the supplementary financial schedules in all material respects in conformity with the corporate accounting standards generally accepted in Japan.

We have no financial interest in the Company which is required to be disclosed under the provisions of the Certified Public Accountant Law of Japan.

- END -

## Copy of Audit Report of the Board of Corporate Auditors

### AUDITORS' REPORT

We, the Board of Corporate Auditors of the Company, based on the audit report prepared by each Corporate Auditor on the performance by the Directors of their duties during the 23rd fiscal year from April 1, 2009 to March 31, 2010, prepared this audit report upon deliberation and hereby report as follows:

1. Method of Audit by the Corporate Auditors and the Board of Corporate Auditors and the Particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc. and received from each Corporate Auditor reports on the state of his performance of audits and the results thereof.

Each Corporate Auditor, pursuant to the rules of audits by Corporate Auditors determined by the Board of Corporate Auditors and in accordance with the audit policy, audit plans, etc., maintained constant communication with the Directors, internal audit divisions and other employees, etc. in an effort to collect information and improve the environment for auditing, attended meetings of the Board of Directors and other important meetings, received from the Directors and employees, etc., reports on the state of performance of their duties, demanded their explanations whenever necessary, inspected important decision documents, etc., and made investigation into the state of activities and property at the head office and principal business offices of the Company. We also monitored and verified the details of the resolutions of the Board of Directors for establishing systems to secure that the performance by the Directors of their duties will comply with laws or ordinances and the Articles of Incorporation and such other systems provided for in Article 100, paragraphs 1 and 3 of the Regulations to Enforce the Corporation Law of Japan as necessary to secure the adequacy of business of joint-stock corporations, as well as the status of the systems (internal control systems) established pursuant to such resolutions. With regard to its subsidiaries, we maintained constant communication and exchanged information with the directors, corporate auditors, etc. thereof and required the subsidiaries to render reports on their business operations and made investigation into the state of their activities and property whenever necessary. In accordance with such methods, we investigated the business report and its supplementary schedules for the fiscal year under review.

We also monitored and verified whether the Account Auditors had maintained an independent position and conducted adequate audits, and received from the Account Auditors reports on the state of performance of their duties and demanded their explanations whenever necessary. In addition, we received from the Account Auditors a notice that the "systems to secure adequate performance of duties" (as listed in the items of Article 131 of the Corporate Accounting Regulations) had been established in accordance with the "Standard for Quality Control Concerning Audits" (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary. In accordance with such methods, we investigated the balance sheet, the statement of income, the statement

of changes in shareholders' equity, etc. and the notes to non-consolidated financial statements, and the supplementary financial schedules for the fiscal year under review.

2. Results of Audit:

(1) Results of audit of the business report, etc.:

We are of the opinion:

- (i) That the business report and its supplementary schedules fairly present the state of the Company in accordance with laws or ordinances and the Articles of Incorporation;
- (ii) That in connection with the performance by the Directors of their duties, no dishonest act or material fact of violation of laws or ordinances or the Articles of Incorporation exists; and
- (iii) That the details of the resolutions of the Board of Directors on internal control systems are proper. We have confirmed that taking into consideration the grave issue concerning compliance that came up in the process of the investigation of the railway accident on the Fukuchiyama Line by the Aircraft and Railway Accidents Investigation Commission, the Company has been exerting its efforts to enhance corporate governance to prevent a recurrence of similar problems and improve and strengthen its internal control systems, including a system of reporting to the Corporate Auditors. We will continue to keep a strict watch on the development.

(2) Results of audit of the financial statements and the supplementary financial schedules:

We are of the opinion that the method and results of the audit made by the Account Auditors, Ernst & Young ShinNihon LLC, are proper.

May 12, 2010

The Board of Corporate Auditors  
West Japan Railway Company

Noboru Koide (seal)  
Full-time Corporate Auditor

Tsutomu Iwasaki (seal)  
Full-time Corporate Auditor  
(External Corporate Auditor)

Kazuo Yoshida (seal)  
External Corporate Auditor

Ikuo Uno (seal)  
External Corporate Auditor