

(Translation)

**Matters to be disclosed on the Internet in accordance with
laws and ordinances and the Articles of Incorporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2013 to March 31, 2014)

West Japan Railway Company

The notes to consolidated financial statements and the notes to non-consolidated financial statements are posted on our website (<http://www.westjr.co.jp/company/ir/stock/meeting/>)* in accordance as provided for in laws and ordinances and the Articles of Incorporation of the Company.

(*) The website is in the Japanese language.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2013 to March 31, 2014)

(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: 62

The consolidated subsidiaries of the Company are West Japan Railway Hotel Development Limited, West Japan Railway Isetan Limited, Kyoto Station Building Development Co., Ltd., Osaka Terminal Building Company, Nippon Travel Agency Co., Ltd., Chugoku JR Bus Company, West Japan Railway Daily Service Net Company, West Japan JR Bus Company, Tennoji Shopping Center Development Co., Ltd., JR-West Japan Real Estate & Development Company, Japan Railway West Trading Company, JR West Japan Communications Company, West Japan Railway Techsia Co., Ltd., West Japan Electric System Co., Ltd. and 48 others.

As of July 1, 2013, JR-West Japan Fukuoka Development Company was merged into JR-West Japan Real Estate & Development Company as a surviving company and San-in Station Development Co., Ltd. was merged into Japan Railway Service Net Yonago Company as a surviving company, respectively. As of July 1, 2013, Japan Railway Service Net Yonago Company changed its trade name to West Japan Railway San-in Development Co., Ltd.

- (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 (which is 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 six affiliated companies: Kansai Rapid Railway Co., Ltd., Osaka Soto-Kanjo Railway Co., Ltd., Daitetsu Kogyo Co., Ltd., Kosei Construction Co., Ltd., Railway Information Systems Co., Ltd. and Asia Air Survey Co., Ltd.

As from the fiscal year under review, Asia Air Survey Co., Ltd. is included in the scope of the application of the equity method due to the additional acquisition by the Company of its shares.

- (3) These 80 non-consolidated subsidiaries and 11 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 (which is equal to the equity share) and retained earnings (equal to the equity share) do not have a significant effect on the consolidated financial statements.
- (4) Among the affiliated companies subject to the equity method, the settlement date of Asia Air Survey Co., Ltd. is September 30 of each year. With regard to the company, its financial statements for its most recent fiscal year are used. The settlement date of any other affiliated company subject to the equity method is March 31 of each year, which corresponds to the consolidated settlement date.

3. Matters concerning the fiscal years of the consolidated subsidiaries

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

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.)
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Those without market value:	At cost, determined principally by the moving average method
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(ii) Derivatives:	At market value
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(iii) Inventories:

Goods:	At cost, determined principally by the retail inventory method and the latest purchase cost method
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Real estate for sale:	At cost, determined by the identified cost method
Work in process:	At cost, determined 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 based 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.

Business commencement 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 a fiscal year.

(iii) Allowance for rewards based on points:

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

(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 the fiscal year under review.

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

To meet the future redemption of gift certificates issued by 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 the fiscal year under review.

(5) Important methods of hedge accounting:

Deferral hedge is adopted in hedge accounting, in principle. Appropriation processing is adopted for exchange contracts and currency swaps that meet the requirements for appropriation processing. Special processing is adopted for interest-rate swap transactions that meet the requirements for special processing.

- (6) Basis for accounting for assets for retirement benefits and liabilities for retirement benefits:

Assets for retirement benefits and liabilities for retirement benefits are accounted for based on estimated retirement benefit obligations and pension plan assets as of the close of the fiscal year under review to meet the payment of retirement benefits to employees.

- (i) Method of attributing expected retirement benefits to periods:

To calculate retirement benefit obligations, the Group employs an straight-line basis as the method of attributing expected retirement benefits to periods up to the close of the fiscal year under review.

- (ii) Methods of treating actuarial differences, past service costs and the difference upon the change of accounting standards as expenses:

The difference upon the change of accounting standards for retirement benefits is treated as expenses, and is amortized on a straight-line basis for a period of 15 years.

Past service costs are amortized principally in a lump sum in a fiscal year when such costs are incurred.

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.

- (7) 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.

- (8) 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 the fiscal year under review 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 at the close of the fiscal year under review 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.

(9) Standard for recognizing revenues pertaining to finance lease transactions:

Net sales and cost of sales are recognized when lease fees are collected.

(10) Accounting treatment of consumption taxes:

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

5. Matters concerning the amortization of goodwill and negative goodwill

Goodwill, and negative goodwill occurring on or before March 31, 2010, are amortized equally over five years.

Negative goodwill occurring on or after April 1, 2010 is treated as an income for a fiscal year when such negative goodwill occurs.

II. Note to change in the accounting policies

Application of the Accounting Standard for Retirement Benefits, Etc.:

The "Accounting Standard for Retirement Benefits" (ASBJ Corporate Accounting Standard No. 26, May 17, 2012; the "Retirement Benefit Accounting Standard") and "Implementation Guidance on Accounting Standard for Retirement Benefits" (ASBJ Implementation Guidance No. 25, May 17, 2012) have become applicable to the close of the fiscal year under review, under which an amount obtained by deducting the amount of pension plan assets from the retirement benefit obligations shall be reported as an liability for retirement benefits. Accordingly, the difference upon the change of accounting standards, unrecognized actuarial differences and unrecognized past service costs are reported as liabilities for retirement benefits.

In connection with the application of the Retirement Benefit Accounting Standard, etc., in accordance with the transitional measure stipulated in Paragraph 37 of the Retirement Benefit Accounting Standard, the effects of the accounting change are recognized in profit or loss in accumulated adjustments to retirement benefits under the line of accumulated other comprehensive income at the close of the fiscal year under review.

As a result of this change, assets for retirement benefits and liabilities for retirement benefits are reported in ¥1,469 million and ¥326,823 million, respectively at the close of the fiscal year under review. Accumulated other comprehensive income has decreased by ¥6,906 million.

III. Notes to consolidated balance sheet, etc.

1. Assets pledged

Assets pledged:

Cash and deposits	¥246 million
Buildings and structures	¥16,098 million
Land	¥159 million
Investment in securities	¥491 million
Total	¥16,995 million

Secured liabilities:

Trade accounts payable	¥18 million
Long-term debt	¥2,130 million
Current portion of long-term debt	¥610 million
Total	¥2,758 million

In addition, pursuant to Article 7 of the Supplementary Provisions to the Act to Amend Part of the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Act 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).

- Accumulated depreciation of tangible fixed assets: ¥3,135,024 million
- Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥670,229 million
- Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	7,197	Commitment to guarantee for loans from financial institutions
Non-consolidated subsidiaries (8 companies)	644	Guarantee for sale of JR tickets on consignment
Customers using affiliated housing loans	3,461	Guarantee for affiliated housing loans
Total	11,303	

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.

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

1. Class and number of shares issued and outstanding at the end of the fiscal year under review

Shares of common stock 193,735,000 shares

2. 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 21, 2013	Shares of common stock	10,655	55	March 31, 2013	June 24, 2013
Meeting of the Board of Directors held on October 29, 2013	Shares of common stock	10,655	55	September 30, 2013	November 29, 2013

(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 24, 2014	Shares of common stock	11,624	Retained earnings	60	March 31, 2014	June 25, 2014

V. 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 indebtedness and capital investments that cannot be covered by cash flows. Temporary surplus funds are 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. Marketable securities and investment 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 indebtedness and make capital investments, which will be redeemed in 26 years maximum after the settlement date of the fiscal year. 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 Shinkansen Holding Corporation pursuant to the Act Related to the Transfer of the Shinkansen Railway Facilities (1991 Act No. 45), payable in semiannual installments calculated using the equal payment method, whereby principal and interest are paid in equal amounts semiannually, in 37 years maximum after the settlement date of the fiscal year. Some of such long-term payables with floating rates are exposed to interest volatility risk.

Derivatives are currency swap and interest-rate swap transactions to hedge volatility risk involving future exchange rates and the payment of interest relating to financial liabilities, as well as exchange contracts to hedge foreign currency volatility risk involving trade payables in foreign currencies. For the methods of hedge accounting, please refer to the "important methods of hedge accounting" stated in the aforementioned "matters concerning the accounting standards".

(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 consolidated settlement date 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 volatility risk):

The Company uses currency swap and interest-rate swap transactions to hedge volatility risk involving future exchange rates and the payment of interest relating to financial liabilities. The execution and management thereof are conducted by its divisions responsible for financing in accordance with its internal rules providing for trading authorities.

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 enters into exchange contracts for trade payables in foreign currencies, which may be certain to be incurred in anticipated transactions relating to overseas travel products, for a semiannual period at a maximum by taking into consideration the past performance and the status of booking thereof. With regard to the execution and management thereof, 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 section of each branch office and their internal auditing divisions manage risk through periodic monitoring systems.

With regard to marketable securities and 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.

- (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 reports from 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. With regard to derivatives listed in "2. Matters concerning fair values, etc. of financial instruments" below, the amount thereof in itself does not represent market risk involved in derivatives trading.

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, 2014 (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	Variance
(1) Cash and deposits	55,203	55,203	-
(2) Trade notes and accounts receivable	20,794	20,794	-
(3) Railway fares receivable	36,721	36,721	-
(4) Accounts receivable	57,365	57,365	-
(5) Marketable securities and investment in securities:			
Stocks of affiliates	2,047	1,814	(232)
Other marketable securities	30,134	30,134	-
(6) Trade notes and accounts payable	(53,542)	(53,542)	-
(7) Short-term borrowings	(25,754)	(25,754)	-
(8) Accounts payable	(118,198)	(118,198)	-
(9) Accrued income taxes	(29,419)	(29,419)	-
(10) Railway deposits received	(5,077)	(5,077)	-
(11) Deposits	(66,615)	(66,615)	-
(12) Bonds (including current portion of bonds)	(459,975)	(506,383)	(46,407)
(13) Long-term debt (including current portion of long-term debt)	(310,814)	(322,114)	(11,300)
(14) Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties)	(209,868)	(319,172)	(109,304)
(15) Long-term payables (including current portion of long-term payables)	(127)	(133)	(5)
(16) Derivatives			
Those to which hedge accounting is applied	1,126	1,126	-

(*) 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) Marketable securities and investment in securities:

All marketable securities are short-term negotiable deposits. For these items, the book value is used as the fair value is nearly equal to the book value.

The fair value of investment in 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 a credit spread plus the yield on government bonds.

(6) Trade notes and accounts payable, (7) Short-term borrowings, (8) Accounts payable (some of which are subjected to appropriation processing for exchange contracts), (9) Accrued income taxes, (10) Railway deposits received and (11) 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.

(12) Bonds (including current portion of bonds):

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

(13) Long-term debt (including current portion of long-term debt) and (15) 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. With regard to some long-term debt, which is subject to currency swaps or interest-rate swaps, the fair value is calculated by discounting the total principal and interest to be processed together with such currency swaps or interest-rate swaps, at an estimated rate supposing similar new borrowings were conducted.

(14) 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.

(16) Derivatives:

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

However, as derivatives subjected to appropriation processing for exchange contracts and special processing for interest-rate swap transactions are processed

together with long-term debt to be hedged, the fair value thereof is stated by inclusion in the fair value of such long-term debt.

(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	53,167
Others	10

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) Marketable securities and investment in securities".

VI. 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	Market value
159,833	344,475

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

(Note 2) The market value of major properties at the close of the fiscal year under review is calculated based on real-estate appraisal standards. The market 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.

VII. Notes to information per share

1. Net assets per share:	¥4,048.31
2. Net income per share:	¥338.98

VIII. Notes to important subsequent event:

Business combination by acquisition:

1. Summary of the business combination

(1) Name of the acquired company:

Daitetsu Kogyo Co., Ltd.

(2) Content of business of the acquired company:

Contract for construction work and track work, and contract for measurement, design and supervision, etc.

(3) Main reason for the business combination:

To enhance the safety and quality of construction work, etc. by the Company

(4) Date of the business combination:

April 24, 2014

(5) Legal form of the business combination:

Acquisition by an affiliated company subject to the equity method of its own shares

(6) Name of the acquired company after the business combination:

The name of the acquired company will not change after the business combination.

(7) Ratio of voting rights:

37.90% before the acquisition

51.63% after the acquisition

(8) Basis for the determination of the acquiring company:

The Company falls under the category of acquiring company as it holds a majority of the voting rights of the acquired company.

2. Cost of acquisition of the acquired company and the details thereof

They are not determined at present.

3. Amounts of assets accepted and liabilities assumed as of the date of the business combination and the principal items thereof

They are not determined at present.

4. Amount of goodwill arisen, etc.

It is not determined at present.

5. Others

As Daitetsu Koyo Co., Ltd. becomes a consolidated subsidiary of the Company, its consolidated subsidiary as listed below will become a consolidated subsidiary of the Company as of the same date.

(1) Name of the company:

JR-West Japan Build Co., Ltd.

(2) Content of business of the company:

Design, execution and supervision of, and consulting on, construction work, civil engineering, etc.

(3) Name of the company after the business combination:

The name of the company will not change after the business combination.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2013 to March 31, 2014)

(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):

Tangible fixed assets are depreciated by the 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 a fiscal year.

(3) 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 the fiscal year under review.

(4) 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 the fiscal year under review.

Past service costs are amortized in a lump sum in a fiscal year when such costs are

incurred.

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.

(5) 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 the fiscal year under review.

5. Methods of hedge accounting

Deferral hedge is adopted in hedge accounting, in principle. Appropriation processing is adopted for currency swaps that meet the requirements for appropriation processing. Special processing is adopted for interest-rate swap transactions that meet the requirements for special processing.

6. 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.

7. Accounting treatment of consumption taxes

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

II. Notes to balance sheet, etc.

1. Assets pledged

Pursuant to Article 7 of the Supplementary Provisions to the Act to Amend Part of the Act Concerning Passenger Railway Companies and the Japan Freight Railway Company (2001 Act 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: ¥2,856,059 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥670,229 million
4. Total amount of fixed assets for business use by item
- Tangible fixed assets: ¥1,746,366 million
- Land: ¥639,504 million
- Buildings: ¥146,249 million
- Structures: ¥661,400 million
- Rolling stock: ¥197,697 million
- Others: ¥101,514 million
- Intangible fixed assets: ¥27,064 million

5. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	7,197	Commitment to guarantee for loans from financial institutions
Kyoto Station Building Development Co., Ltd.	5,637	
Hotel Granvia Okayama Co., Ltd.	248	Guarantee for loans from financial institutions
JR West Miyajima Ferry Co. Ltd.	127	Guarantee for the amount payable to Japan Railway Construction, Transport and Technology Agency
Hotel Granvia Osaka Co., Ltd.	16	Guarantee for the balance of prepaid cards issued
Hotel Granvia Hiroshima Co., Ltd.	8	
Total	13,234	

6. Long-term receivables from affiliates: ¥75,854 million
7. Short-term receivables from affiliates: ¥31,398 million
8. Long-term payables to affiliates: ¥1,924 million
9. Short-term payables to affiliates: ¥266,853 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:	¥873,651 million
2.	Operating expenses:	
	Delivery expenses and cost of sales:	¥562,648 million
	Railway operations	¥562,624 million
	Related businesses	¥23 million
	Selling, general and administrative expenses:	¥48,149 million
	Railway operations	¥40,827 million
	Related businesses	¥7,321 million
	General tax:	¥31,688 million
	Depreciation expenses:	¥129,392 million
3.	Transactions with affiliates:	
	Operating revenues:	¥37,584 million
	Operating expenses:	¥202,727 million
	Transactions other than ordinary business:	¥127,768 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:	606 shares
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V. Notes to tax effect accounting

1. Principal items of deferred tax assets:

Allowance for bonuses	¥9,533 million
Accrued enterprise taxes	¥1,590 million
Accrued social insurance contributions	¥1,414 million
Retirement allowance for employees	¥105,142 million
Allowance for environment and safety measures	¥3,599 million
Others	¥22,298 million
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Subtotal of deferred tax assets	¥143,577 million
Valuation reserve	(¥10,978 million)
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Total deferred tax assets	¥132,598 million

2. Principal items of deferred tax liabilities:

Evaluation difference on other securities	(¥1,585 million)
Reserve for advanced depreciation of fixed assets	(¥12,090 million)
Others	(¥8 million)
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Total deferred tax liabilities	(¥13,685 million)

3. Deferred tax assets – net: ¥118,913 million

VI. Notes to information per share

1. Net assets per share:	¥3,300.86
2. Net income per share:	¥251.28