**(Translation)**

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

## SYSTEMS REQUIRED TO SECURE THE PROPERNESS OF BUSINESS ACTIVITIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2018 to March 31, 2019)

**West Japan Railway Company**

The systems required to secure the properness of business activities, the notes to consolidated financial statements and the notes to non-consolidated financial statements are posted on our website (https://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.

(*) For your reference, the English translation of the matters presented on the Japanese website above will be provided on the Company's English website (https://www.westjr.co.jp/global/en/ir/news/2020/).

**SYSTEMS REQUIRED TO SECURE THE PROPERNESS OF BUSINESS ACTIVITIES** (as of March 31, 2019)

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

The Company has instituted a "Corporate Philosophy" and a "Safety Charter" as the basis of management. To materialize the philosophy and the charter, the Board of Directors of the Company determines medium-term management plans and annual business operation policies for the entire Group (including the Company and its subsidiaries; the same applies hereinafter) to share the directions for the entire Group to follow.

Furthermore, to establish corporate ethics, the Company has instituted its code of conduct and code of ethics in accordance with the "Corporate Philosophy", made 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. Through the following measures, the Company shall endeavor to improve its systems to ensure compliance with law and establish corporate ethics in its business operations in general:

(1) Adequate operation of the Board of Directors

- 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 and improve the system of distributing information to the external Directors.

- The Board of Directors of the Company shall meet once every month, in principle, to deliberate on important matters for management and report the development of execution of business and matters concerning corporate ethics on a timely and appropriate manner.

- The Company shall clearly present the risks of measures and the position thereof in a medium-term management plan to ensure the enhancement of efficiencies of the Board of Directors.

Through these measures, the Company shall strengthen the functions of appropriate decision-making of the Board of Directors and its functions of monitoring and supervision of corporate management.

(2) Securement of proper execution of duties

- The Company shall ensure transparency by devising schemes that may allow checking functions, including a system of circulating requests for managerial decision, as well as various committees to be established from time to time.

- The Company shall make the Inquiry & Auditing Department, responsible for internal audits, audit business of the Company in general.

- 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 Company shall clarify the criteria for the selection of Directors and Executive Officers to enhance objectivity and transparency.

- 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 ordinances or other rules in connection with the execution of their duties, at the close of each fiscal year.

- Against antisocial forces, the Company shall establish general supervising divisions and sections and manuals to cope with them. The Company shall also work closely with external specialized agencies and deal with them in a resolute attitude, and have no truck with them.

(3) Institution of a deliberative organ for the establishment of corporate ethics and the improvement of the internal reporting system

- The Company shall institute a "Risk Management Committee" with the President acting as chairman, which shall select material risks that may have critical impacts on the management of the Company and deliberate on and evaluate policies to respond to such risks and other issues, and file necessary reports with the Board of Directors.
  With regard to such policies of the Risk Management Committee, the "Corporate Ethics Committee" with the Director in charge of the Corporate Ethics and Risk Management Department acting as chairman shall deliberate on and evaluate important matters concerning the establishment of corporate ethics by seeking broad knowledge from experts.

- 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 internal reporting system.

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 Audit &

Supervisory Board Members 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, 2005, 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 work to establish a safe, secure and trusted railway service in accordance with its "Corporate Philosophy" and "Safety Charter". Simultaneously, through the following efforts, the Company shall endeavor to build up a system for appropriate risk management in its business activities in general:

- In accordance with the "JR-West Group Railway Safety Think-and-Act Plan 2022" formulated in February 2018, the Company shall, on the basis of "fostering the spread of safety-first awareness", enhance the "railway systems that maintain safety" through the "enhancement of organizational safety management" and the "implementation of safety think-and-act by each individual" and realize "safety management with the participation of all employees". In these ways, the Company will strive to prevent serious accidents and labor accidents.

- The Company shall build a stronger safety management system based on its "Railway Safety Management Manual" instituted in accordance with the Railway Business Act of Japan and strive to apply Plan-Do-Check-Act (PDCA) cycles to improve the system on an ongoing basis.

Additionally, with regard to the policies of the Risk Management Committee, the "Crisis Measures Committee" with the Director in charge of the Corporate Ethics and Risk Management Department acting as chairman shall deliberate on and evaluate important matters relating to the establishment of a rapid initial response system in the event of a wide-scale disaster or any other serious crisis, by seeking broad knowledge from experts.

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

- The Directors in charge of their respective sections shall, based on the medium-term management plan and annual business operation policy determined by the Board of Directors, execute their duties properly with regard to the measures of the respective sections by formulating the policies of such sections or otherwise 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 the Executive Officers serving at the head office 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 monitoring and supervision functions of the Board of Directors and its speedier decision-making.

5. Systems to secure the properness of business activities of the corporate group

The Company shall institute group-wide medium-term management plans to share the directions for the entire Group to follow. To fulfill its responsibility as a member of society, the Company shall enhance awareness about compliance and establish corporate ethics, and develop the following systems to secure the properness of business activities of the corporate group:

(1) Fundamental system to promote group management

- The Company shall establish a section of its own responsible for promoting group management and with regard to important managerial matters of the group companies, including business plans, establish a system to allow them to consult with the Company in advance and file ex-post facto reports in accordance with the group company management rules to be prescribed by the Company.

- The Company shall regularly hold various meetings and training sessions for officers and employees of its group companies to share information among the Group.

(2) Assumption of the offices of officers of group companies by officers of the Company

- The Company shall make its officers assume the offices of directors and audit & supervisory board members of its important group companies to ensure legitimate and effective management of the Group.

(3) Establishment of corporate ethics and the formulation of risk management systems in the entire Group

- In accordance with the policies of the Risk Management Committee, the Corporate Ethics Committee shall deliberate on and evaluate the establishment of corporate ethics, and the Crisis Measures Committee shall deliberate on and evaluate a response to any serious crisis, by seeking broad knowledge from experts.

- The Company shall establish a section responsible for risk management of the entire Group and 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 entire Group.

- Furthermore, for specific risk management of the entire Group, each section and each branch of the Company and each group company shall take the initiative in detecting serious risks and developing a system to implement countermeasures, whereby allowing the section responsible for risk management of the entire Group to cooperate with the internal audit sections to manage each progress situation and afford support.

(4) Internal reporting system

- With regard to the internal reporting system, the Company shall respond to consultations concerning any group company through contacts established in and outside of the Company. The Company shall also make the system well known among the group companies.

(5) Performance of internal audits of group companies

- For the purpose of its internal audits, the Company shall, whenever necessary, confirm the state of execution of business and other activities by the group companies.

- 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 Audit & Supervisory Board Members to execute their duties and their independence from the Directors and the matters concerning the securement of efficiencies of directions to such employees

- The Company shall establish an Audit & Supervisory Board Members' Office under the direct control of the Audit & Supervisory Board Members and appoint its employees to engage exclusively in assisting the Audit & Supervisory Board Members.

- The employees belonging to the Audit & Supervisory Board Members' Office shall, independently of any section, execute their duties under the orders and instructions of the Audit & Supervisory Board Members.

- The Company shall develop a cooperative system to provide information or otherwise for such employees executing their duties.

- In consideration of such employees' assuming a key role of engaging in part of the auditing functions, the Company shall appoint them by taking into full account their experience and knowledge and make their personnel changes and evaluations by giving serious consideration to the opinions of the Audit & Supervisory Board Members.

7. System for reporting by Directors and employees of the Company and its subsidiaries or any party receiving reports from such persons to the Audit & Supervisory Board Members and other systems for reporting to the Audit & Supervisory Board Members, and a system to ensure the prevention of unfair treatment because of such reporting

- The Directors, Executive Officers and employees of the Company, as well as the directors, executive officers, audit & supervisory board members and employees of its group companies, shall give reports to the Audit & Supervisory Board Members or the Audit & Supervisory Board of the Company promptly upon the occurrence of any grave accident, any act in violation of any law or ordinance or the Articles of Incorporation and any event that may cause material damage to the Company or any group company.

- They shall also give reports on the state of performance of internal audits, the particulars of internal reporting filed with the contacts responsible for internal reporting by any party within the entire Group, the particulars of the measures taken by the Corporate Ethics and Risk Management Department and the results of railway safety audits, as well as the details of business and problems of each section and such other matters as requested by the Audit & Supervisory Board Members or the Audit & Supervisory Board, from time to time or on a regular basis.

- Any person who gives such any report shall be protected properly by instituting internal rules by the Company and each group company.

8. Other systems to ensure effective audits by the Audit & Supervisory Board Members

- With regard to the securement of effective audits by the Audit & Supervisory Board Members, the Directors of the Company shall formulate systems necessary for the Audit & Supervisory Board Members to expediently perform audits, including those to allow the Audit & Supervisory Board Members 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 and other officers on a regular basis.

- All expenses incurred by the Audit & Supervisory Board Members in executing their duties, including consultation with attorneys, auditing firms and other third-party professionals as the necessity arises, shall be borne by the Company.

- The sections responsible for the business offices of the Company shall coordinate and cooperate with each other to allow the Audit & Supervisory Board Members to visit the offices to perform their effective and efficient audits.

- The Company shall improve and strengthen the system of audits by audit & supervisory board members of the entire Group that can respond to regular meetings, such as liaison conferences of audit & supervisory board members of the Group consisting of the Full-time Audit & Supervisory Board Members of the Company and audit & supervisory board members of its group companies.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2018 to March 31, 2019)

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

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

1. Matters concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 64

The consolidated subsidiaries of the Company are West Japan Railway Hotel Development 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, Daitetsu Kogyo Co., Ltd., JR West Japan Shopping Center Development Company, JR West Real Estate & Development Company, JR West Japan Communications Company, West Japan Railway Isetan Limited, West Japan Railway Techsia Co., Ltd., West Japan Electric System Co., Ltd., JR West Properties Co., Ltd. and 49 others.

(2) The Company has 91 non-consolidated subsidiaries, including Senmon Daiten. 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 five affiliated companies: Kansai Rapid Railway Co., Ltd., Osaka Soto-Kanjo Railway Co., Ltd., Kosei Construction Co., Ltd., Railway Information Systems Co., Ltd. and Asia Air Survey Co., Ltd.

(3) These 91 non-consolidated subsidiaries and 16 affiliated companies, including Transportation News 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 policies

(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) Derivatives: At market value

(iii) 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 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 (principally, 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.

(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.

(4) Basis for accounting for important allowances:

(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) Provision for loss on disaster

To meet the payment for expenses needed for future restoration related to damage resulting from the Heavy Rain Event of July 2018, the Group provides an estimated amount of such expenses.

(iv) Allowance for point program:

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.

(v) Provision for large scale renovation of Shinkansen infrastructure:

Pursuant to the provision of Article 17, paragraph 1 of the Act for National Shinkansen Network, the Group makes a provision for large scale renovation of Shinkansen infrastructure.

(vi) 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.

(vii) Provision for loss on liquidation of railway belts:

To meet the payment for expenses to remove bridges and electric power facilities of the discontinued Sanko Line (between Gotsu and Miyoshi stations), the Group provides an estimated amount of such expenses.

(viii) 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 net defined benefit asset and net defined benefit liability:

Net defined benefit asset and net defined benefit liability 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 and past service costs as expenses:

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.

(iii) Application of a simplified method for small companies, etc.

For the purpose of the calculation of net defined benefit liability and retirement benefit expenses, some of the consolidated subsidiaries of the Company adopt a simplified method in which retirement benefit obligations are assumed to be equal to the amount of benefits payable assuming the voluntary retirement of all employees at fiscal year-end.

(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 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

Goodwill is amortized equally over five years.

## II. Note to change in the methods of presentation

Related to consolidated statement of income

"Loss on disaster", which was included in "Others" under "Extraordinary expenses" for the previous fiscal year, is stated separately due to its increased importance in terms of amount, as from the fiscal year under review.

The "loss on disaster" for the previous fiscal year accounted for ¥1,863 million.

"Impairment loss", which was stated separately under "Extraordinary expenses" for the previous fiscal year, is included in "Others" due to its decreased importance in terms of amount, as from the fiscal year under review.

The "impairment loss" for the previous fiscal year accounted for ¥2,391 million.

Change due to the application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

From the beginning of the fiscal year under review, the Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). A change has been made to show deferred tax assets in the "Investments and other assets" item, and deferred tax liabilities in the "Long-term liabilities" item.

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

1. Assets pledged

| | |
|---|---|
| Assets pledged: | |
| Cash and deposits | ¥245 million |
| Buildings and structures | ¥191 million |
| Land | ¥128 million |
| Investment in securities | ¥709 million |
| Guarantee deposits | ¥395 million |
| Total | ¥1,670 million |

| | |
|---|---|
| Secured liabilities: | |
| Trade accounts payable | ¥16 million |
| Total | ¥16 million |

2. Accumulated depreciation of tangible fixed assets: ¥3,501,151 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥734,980 million

4. Particulars of guarantee obligations

(million yen)

| Guaranteed | Guarantee amount | Details of guaranteed obligations |
|---|---|---|
| Osaka Soto-Kanjo Railway Co., Ltd. | 13,976 | Guarantee for loans from financial institutions |
| Kansai Rapid Railway Co., Ltd. | 600 | |
| Mitsui & Co., Ltd. | 2,855 | Guarantee for urban passenger transportation business in Brazil |
| Non-consolidated subsidiaries | 665 | Guarantee for sale of JR tickets on consignment |
| Customers using affiliated housing loans | 1,652 | Guarantee for affiliated housing loans |
| Other | 4 | |
| Total | 19,755 | |

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 net assets

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

| | |
|---|---|
| Shares of common stock | 192,481,400 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, 2018 | Shares of common stock | 15,498 | 80 | March 31, 2018 | June 22, 2018 |
| Meeting of the Board of Directors held on October 29, 2018 | Shares of common stock | 16,842 | 87.5 | September 30, 2018 | December 3, 2018 |

(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 20, 2019 | Shares of common stock | 16,842 | Retained earnings | 87.5 | March 31, 2019 | June 21, 2019 |

## 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 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. 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 39 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 are 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 32 years maximum after the settlement date of the fiscal year.

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 policies".

(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 investments 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, 2019 (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 | 109,327 | 109,327 | - |
| (2) | Trade notes and accounts receivable | 32,521 | 32,521 | - |
| (3) | Railway fares receivable | 43,552 | 43,552 | - |
| (4) | Accounts receivable | 72,287 | 72,287 | - |
| (5) | Marketable securities and investment in securities: | | | |
| | Stocks of affiliates | 2,915 | 4,002 | 1,087 |
| | Other marketable securities | 49,531 | 49,531 | - |
| (6) | Trade notes and accounts payable | (70,771) | (70,771) | - |
| (7) | Short-term borrowings | (20,713) | (20,713) | - |
| (8) | Accounts payable | (126,024) | (126,024) | - |
| (9) | Accrued income taxes | (28,068) | (28,068) | - |
| (10) | Railway deposits received | (2,686) | (2,686) | - |
| (11) | Deposits | (105,788) | (105,788) | - |
| (12) | Bonds (including current portion of bonds) | (569,984) | (630,381) | (60,396) |
| (13) | Long-term debt (including current portion of long-term debt) | (389,661) | (411,156) | (21,495) |
| (14) | Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties) | (104,371) | (229,101) | (124,730) |
| (15) | Derivatives<br>Those to which hedge accounting is applied | (97) | (97) | - |

(*) 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):

The fair value of long-term debt 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.

(15) 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 | 74,927 |
| Others | 1,135 |

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 consolidated 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 |
|---|---|
| 327,838 | 701,449 |

(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 properly reflect the market price.

## VII. Notes to information per share

1. Net assets per share: ¥5,612.63
2. Profit per share: ¥533.31

## VIII. Notes to material subsequent events

Acquisition by the Company of its own shares

The Company, at the meeting of its Board of Directors held on April 26, 2019, decided on the matters concerning the acquisition of its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, paragraph 3 of the Act, as follows:

| | | |
|---|---|---|
| 1. | Reason for the acquisition of its own shares: | To enhance shareholder returns and improve capital efficiency |
| 2. | Class of shares to be acquired: | Shares of common stock of the Company |
| 3. | Total number of shares to be acquired: | (No more than) 1,500,000 shares<br>(Ratio thereof to the total number of issued shares (excluding shares of treasury stock): 0.8%) |
| 4. | Aggregate acquisition price of shares: | (No more than) ¥10,000 million |
| 5. | Acquisition period: | May 7, 2019 through March 31, 2020 |

## IX. Other notes:

Damage from the Heavy Rain Event of July 2018

Restoration expenses related to damage resulting from the Heavy Rain Event of July 2018 were recorded as "loss on disaster" in the extraordinary expenses section of the consolidated statement of income.

Also, to meet the payment for expenses needed for future recovery efforts, the Company included the estimated amount as "Provision for loss on disaster" in current liabilities on the consolidated balance sheet, and recorded it as "Provision for loss on disaster" in the extraordinary expenses section of the consolidated statement of income.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2018 to March 31, 2019)

(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 (excluding leased 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).

(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.

(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

(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) Provision for loss on disaster

To meet the payment for expenses needed for future restoration related to damage resulting from the Heavy Rain Event of July 2018, the Company provides an estimated amount of such expenses.

(4) Allowance for point program:

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.

(5) Provision for large scale renovation of Shinkansen infrastructure:

Pursuant to the provision of Article 17, paragraph 1 of the Act for National Shinkansen Network, the Company makes a provision for large scale renovation of Shinkansen infrastructure.

(6) 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.

To calculate retirement benefit obligations, the Company 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.

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.

(7) 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.

(8) Provision for loss on liquidation of railway belts:

To meet the payment for expenses to remove bridges and electric power facilities of the discontinued Sanko Line (between Gotsu and Miyoshi stations), the Company provides an estimated amount of such expenses.

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 reduction entry of proceeds from construction, as an extraordinary expense.

7. Standard for recognizing revenues pertaining to finance lease transactions:

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

8. Accounting treatment of consumption taxes

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

## II. Note to change in the methods of presentation

Related to statement of income

"Loss on disaster", which was included in "Others" under "Extraordinary expenses" for the previous fiscal year, is stated separately due to its increased importance in terms of amount, as from the fiscal year under review.

The "loss on disaster" for the previous fiscal year accounted for ¥1,863 million.

Change due to the application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

From the beginning of the fiscal year under review, the Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). A change has been made to show deferred tax assets in the "Investments and other assets" item, and deferred tax liabilities in the "Long-term liabilities" item.

## III. Notes to balance sheet, etc.

1. Accumulated depreciation of tangible fixed assets: ¥3,166,161 million

2. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥734,980 million

3. Total amount of fixed assets for business use by item:

| | |
|---|---|
| Tangible fixed assets: | ¥1,871,060 million |
| Land: | ¥639,916 million |
| Buildings: | ¥166,197 million |
| Structures: | ¥687,038 million |
| Rolling stock: | ¥262,577 million |
| Others: | ¥115,328 million |
| Intangible fixed assets: | ¥29,629 million |

4. Particulars of guarantee obligations:

(million yen)

| Guaranteed | Guarantee amount | Details of guaranteed obligations |
|---|---|---|
| Osaka Soto-Kanjo Railway Co., Ltd. | 13,976 | Guarantee for loans from financial institutions |
| Kyoto Station Building Development Co., Ltd. | 979 | |
| Kansai Rapid Railway Co., Ltd. | 600 | |
| Mitsui & Co., Ltd. | 2,855 | Guarantee for urban passenger transportation business in Brazil |
| Hotel Granvia Osaka Co., Ltd. | 19 | Guarantee for the balance of prepaid cards issued |
| Hotel Granvia Hiroshima Co., Ltd. | 7 | |
| Total | 18,438 | |

5. Long-term receivables from affiliates: ¥106,075 million

6. Short-term receivables from affiliates: ¥40,343 million

7. Long-term payables to affiliates: ¥948 million

8. Short-term payables to affiliates: ¥363,883 million

9. Provision for large scale renovation of Shinkansen infrastructure made pursuant to the provision of Article 17, paragraph 1 of the Act for National Shinkansen Network: ¥12,500 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.

## IV. Notes to statement of income

| | | | |
|---|---|---|---|
| 1. | Operating revenues: | | ¥980,906 million |
| 2. | Operating expenses: | Delivery expenses and cost of sales: | ¥608,467 million |
| | | Railway operations | ¥608,257 million |
| | | Related businesses | ¥210 million |
| | | Selling, general and administrative expenses: | ¥51,309 million |
| | | Railway operations | ¥41,498 million |
| | | Related businesses | ¥9,810 million |
| | | General tax: | ¥36,047 million |
| | | Depreciation expenses: | ¥134,355 million |
| 3. | Transactions with affiliates: | | |
| | | Operating revenues: | ¥43,888 million |
| | | Operating expenses: | ¥233,261 million |
| | | Transactions other than ordinary business: | ¥115,962 million |

4. Transfer to provision for large scale renovation of Shinkansen infrastructure made pursuant to the provision of Article 17, paragraph 1 of the Act for National Shinkansen Network: ¥4,166 million

## V. Note to statement of changes in net assets

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

Shares of common stock: 648 shares

## VI. Notes to tax effect accounting

1. Principal items of deferred tax assets:

| | |
|---|---|
| Allowance for bonuses | ¥7,873 million |
| Accrued social insurance contributions | ¥1,172 million |
| Accrued enterprise taxes | ¥1,335 million |
| Retirement allowance for employees | ¥83,490 million |
| Allowance for environment and safety measures | ¥3,704 million |
| Others | ¥35,274 million |
| Subtotal of deferred tax assets | ¥132,851 million |
| Valuation reserve | (¥9,114 million) |
| Total deferred tax assets | ¥123,737 million |

2. Principal items of deferred tax liabilities:

| | |
|---|---|
| Evaluation difference on other securities | (¥1,195 million) |
| Reserve for advanced depreciation of fixed assets | (¥10,573 million) |
| Others | (¥26 million) |
| Total deferred tax liabilities | (¥11,794 million) |

3. Deferred tax assets – net: ¥111,942 million

## VII. Notes to information per share

1. Net assets per share: ¥4,155.11
2. Net income per share: ¥418.13

## VIII. Notes to material subsequent events

Acquisition by the Company of its own shares

The Company, at the meeting of its Board of Directors held on April 26, 2019, decided on the matters concerning the acquisition of its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, paragraph 3 of the Act, as follows:

| | | |
|---|---|---|
| 1. | Reason for the acquisition of its own shares: | To enhance shareholder returns and improve capital efficiency |
| 2. | Class of shares to be acquired: | Shares of common stock of the Company |
| 3. | Total number of shares to be acquired: | (No more than) 1,500,000 shares<br>(Ratio thereof to the total number of issued shares (excluding shares of treasury stock): 0.8%) |
| 4. | Aggregate acquisition price of shares: | (No more than) ¥10,000 million |
| 5. | Acquisition period: | May 7, 2019 through March 31, 2020 |

## IX Other notes

Damage from the Heavy Rain Event of July 2018

Restoration expenses related to damage resulting from the Heavy Rain Event of July 2018 were recorded as "loss on disaster" in the extraordinary expenses section of the statement of income.

Also, to meet the payment for expenses needed for future recovery efforts, the Company included the estimated amount as "Provision for loss on disaster" in current liabilities on the balance sheet, and recorded it as "Provision for loss on disaster" in the extraordinary expenses section of the statement of income.