(Translation)

Attached document 2

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, 2015 to March 31, 2016)

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 (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.

(*) For your reference, the English translation of the matters presented on the Japanese website above will be provided on the Company's English website (http://www.westjr.co.jp/global/en/ir/news/2016/).

SYSTEMS REQUIRED TO SECURE THE PROPERNESS OF BUSINESS ACTIVITIES

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 thereof 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 from the perspectives of compliance with laws or ordinances and regulations.

- 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 ensure 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 establish a "Corporate Ethics Committee" with the President acting as chairman, which shall deliberate on and evaluate important matters for the establishment of corporate ethics and submit necessary reports to the Board of Directors.

- The Company shall also accept consultations as to questionable acts from the perspective of law or corporate ethics through contacts with the "Ethics Office" of the Company and outside attorneys and improve its 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 Corporate Auditors at all times whenever necessary.

3. Regulations concerning management of exposure to the risk of loss and other systems

Taking seriously that on April 25, 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 rail service in accordance with its "Corporate Philosophy" and "Safety Charter". Simultaneously, through the following efforts, the Company shall build up a system for appropriate risk management in its business activities in general:

- The Company shall steadily implement measures in response to remarks, including "proposals" and "opinions" stated in the report on the investigation of the train accident on the Fukuchiyama Line publicized by the Aircraft and Railway Accidents Investigation Commission in June 2007.

- The Company shall also steadily enhance the levels of safety by focusing on "continual effort to realize safe, reliable transport service", "increasing the level of risk assessment", "increasing safety awareness and implementing think-and-act initiatives with the highest priority on human life" and "investment in safety", which have all been set forth in the "Safety Think-and-Act Plan 2017" formulated in March 2013.

- The Company shall build a stronger safety management system based on its "Railway Safety Management Manual" instituted in accordance with the amended Railway Business Act of Japan enforced in October 2006.

Additionally, the "Risk Management Committee" with the President acting as chairman shall keep track of risks and critical factors that may have material effects on management of the Company, deliberate on and determine important policies to respond thereto, the preparation of manuals, etc., prepare to establish a rapid initial response system and implement appropriate measures in the event of a wide-scale disaster or any other serious crisis, and examine and evaluate the risk management schemes and systems.

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 at the beginning of each fiscal year, 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 functions of the Board of Directors to monitor and supervise 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 corporate auditors of its important group companies to ensure legitimate and effective management of the Group.

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

- The Company shall determine policies on the establishment of corporate ethics in the entire Group by taking into consideration deliberations at its "Corporate Ethics Committee".

- The Company shall determine fundamental matters for risk management of the entire Group at its "Risk Management Committee".

- 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 observation of laws or ordinances and regulations concerning execution of business 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 Corporate Auditors 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 a Corporate Auditors' Office under the direct control of the Corporate Auditors and appoint its employees to engage exclusively in assisting the Corporate Auditors.

- The employees belonging to the Corporate Auditors' Office shall, independently of any section, execute their duties under the orders and instructions of the Corporate Auditors.

- 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 Corporate Auditors.

7. System for reporting by Directors and employees of the Company and its subsidiaries or any party receiving reports from such persons to the Corporate Auditors and other systems for reporting to the Corporate Auditors, 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, corporate auditors and employees of its group companies, shall give to the Corporate Auditors or the Board of Corporate

Auditors reports promptly upon the occurrence of any grave accident, any act in violation of any law or ordinance or the Articles of Incorporation 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 information provided with the "Ethics Office", the particulars of the measures taken by the President's Special Aide, the details of business and problems of each section and such other matters as requested by the Corporate Auditors or the Board of Corporate Auditors, from time to time and on a regular basis.

- 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 Corporate Auditors

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

- All expenses incurred by the Corporate Auditors 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 Corporate Auditors to visit the offices to perform effective and efficient audits.

- The Company shall improve and strengthen the system of audits by corporate auditors of the entire Group that can respond to regular meetings, such as liaison conferences of corporate auditors of the Group consisting of the Full-time Corporate Auditors of the Company and corporate auditors of its group companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2015 to March 31, 2016)

(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: 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, Daitetsu Kogyo Co., Ltd., JR-West Japan Real Estate & Development Company, JR West Japan Communications Company, West Japan Electric System Co., Ltd. and 50 others.

As of April 1, 2015, West JR Create Company merged with Osaka Station Development Co., Ltd. and ceased to exist. As of April 1, 2015, Osaka Station Development Co., Ltd. changed its trade name to JR West Osaka Development Co., Ltd.

(2) The Company has 84 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 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 84 non-consolidated subsidiaries and 13 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 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 (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") Statement 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:

(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 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.

(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 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, 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.

(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 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

Goodwill is amortized equally over five years.

II. Note to change in the accounting policies

Application of the Business Combinations Accounting Standard and Other Standards

From the fiscal year under review, the Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013; hereinafter the "Business Combinations Accounting Standard"), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; hereinafter the "Consolidation Accounting Standard") and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; hereinafter the "Business Divestitures Accounting Standard"), recording as capital surplus the variance on changes in equity interests in the subsidiaries where the Company retains control, and changing the method for recording acquisition-related expenses as expenses for the fiscal year. Also, for business combinations conducted from the beginning of the fiscal year under review, the Company has changed to a method to reflect the revisions to the allocated amount of acquisition cost determined by provisional accounting treatment in the consolidated financial statements for the fiscal year during which the date of the business combination falls. In addition, the Company has made changes to the presentation of net income, and changed the presentation of minority interests to non-controlling interests.

For the application of the Business Combinations Accounting Standard and other standards, the Company follows the transitional treatment prescribed by Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard, applicable from the beginning of the fiscal year under review and thereafter.

For the fiscal year under review, the effect of the change on the consolidated financial statements and information per share is negligible.

III. Note to change in accounting estimates

In the fiscal year under review, in addition to the regular PCB waste for which the Company has recorded an allowance, the Company recorded an extraordinary expense as a provision for environment and safety measures for waste with low concentration PCB since reasonable accounting estimates can now be made for disposal costs for waste with low concentration PCB.

As a result, income before income tax for the fiscal year under review declined ¥12,939 million.

IV. Notes to consolidated balance sheet, etc.

1. Assets pledged

Assets pledged:

Cash and deposits	¥246 million
Buildings and structures	¥15,526 million
Land	¥159 million
Investment in securities	¥681 million
Guarantee deposits	¥17 million
Total	¥16,631 million

Secured liabilities:

Trade accounts payable	¥56 million
Current portion of long-term debt	¥610 million
Long-term debt	¥910 million
Total	¥1,576 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).

2. Accumulated depreciation of tangible fixed assets: ¥3,245,839 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥684,654 million

4. Particulars of guarantee obligations

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	8,449	Commitment to guarantee for loans from financial institutions
Mitsui & Co., Ltd.	759	Guarantee for urban passenger transportation business in Brazil
Non-consolidated subsidiaries (9 companies)	847	Guarantee for sale of JR tickets on consignment
Customers using affiliated housing loans	5,100	Guarantee for affiliated housing loans
Total	15,156	

5. Contingent liability under the agreement for debt assumption of the bonds:
¥20,000 million

6. 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.

V. 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 23, 2015	Shares of common stock	12,592	65	March 31, 2015	June 24, 2015
Meeting of the Board of Directors held on October 30, 2015	Shares of common stock	12,592	65	September 30, 2015	December 1, 2015

(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 22, 2016	Shares of common stock	13,561	Retained earnings	70	March 31, 2016	June 23, 2016

VI. 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. 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 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 35 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 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 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, 2016 (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	45,973	45,973	-
(2)	Trade notes and accounts receivable	34,681	34,681	-
(3)	Railway fares receivable	34,794	34,794	-
(4)	Accounts receivable	58,719	58,719	-
(5)	Marketable securities and investment in securities:			
	Stocks of affiliates	2,422	2,760	337
	Other marketable securities	48,984	48,984	−
(6)	Trade notes and accounts payable	(76,782)	(76,782)	-
(7)	Short-term borrowings	(14,775)	(14,775)	-
(8)	Accounts payable	(91,338)	(91,338)	-
(9)	Accrued income taxes	(36,389)	(36,389)	-
(10)	Railway deposits received	(2,238)	(2,238)	-
(11)	Deposits	(75,557)	(75,557)	-
(12)	Bonds (including current portion of bonds)	(494,979)	(558,221)	(63,241)
(13)	Long-term debt (including current portion of long-term debt)	(368,691)	(395,714)	(27,023)
(14)	Long-term payables for the acquisition of railway properties (including current portion of long-term payables for the acquisition of railway properties)	(138,120)	(272,969)	(134,848)
(15)	Long-term payables (including current portion of long-term payables)	(64)	(65)	(0)
(16)	Derivatives Those to which hedge accounting is applied	(227)	(227)	-

(*) 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	53,140
Others	0

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".

VII. 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
199,114	423,325

(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.

VIII. Notes to information per share

1. Net assets per share: ¥4,534.29
2. Net income per share: ¥443.53

IX. Notes to material subsequent events

Bond Issuance

The Company, based on a resolution at the meeting of its Board of Directors held on March 16, 2016, decided on April 14, 2016 to make its 43rd issuance of domestic straight bonds under the terms and conditions below. An overview of the issuance is as follows:

1.	Total issue amount:	¥10,000 million
2.	Issue price:	¥100 for the nominal value of ¥100
3.	Interest rate:	0.714% per annum
4.	Maturity date:	April 20, 2046
5.	Issue date:	April 21, 2016
6.	Security:	None
7.	Use of proceeds:	Repayment of long-term payables for the acquisition of railway properties

X. Other notes:

Additional Information

1. Application of the "Act for Partial Revision of the Income Tax Act, Etc." and the "Act for Partial Revision of the Local Tax Act, Etc."

On March 29, 2016, the "Act for Partial Revision of the Income Tax Act, Etc." and the "Act for Partial Revision of the Local Tax Act, Etc." were enacted. Consequently, the corporate tax rate and local tax rate will be changed from the fiscal year beginning on or after April 1, 2016.

Accordingly, with regard to temporary differences expected to be eliminated for the fiscal year beginning on or after April 1, 2016 through March 31, 2018, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 32.26% to 30.86%, principally. With regard to temporary differences expected to be eliminated for the fiscal year or years beginning on or after April 1, 2018, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 32.26% to 30.62%, principally.

As a result, net deferred tax assets decreased by ¥6,105 million and income taxes - deferred (Credit) increased by ¥6,573 million.

2. Approval of the Allowance Reserve Plan for the Large-Scale Renovation of Shinkansen Infrastructure

With respect to the Sanyo Shinkansen (between Shin-Osaka and Hakata), which the Company owns, the Company has recognized the need for large-scale renovation to ensure reliable transportation in the future and on March 29, 2016, obtained approval from the Minister of Land, Infrastructure, Transport and Tourism for its allowance reserve plan for the large-scale renovation of Shinkansen infrastructure, based on Article 16, paragraph 1 of the Nationwide Shinkansen Railway Development Act (1970 Act No. 71).

As a result, from the fiscal year ending March 31, 2017 through the fiscal year ending March 31, 2028, in comparison with the case where an allowance reserve is not implemented, there will be additional operating expenses of ¥4,166 million in each fiscal year. Subsequently, as a result of implementing a reversal of the allowance, from the fiscal year ending March 31, 2029 through the fiscal year ending March 31, 2038, in comparison with the case where an allowance reserve is not implemented, there will be a reduction in operating expenses of ¥5,000 million in each fiscal year.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2015 to March 31, 2016)

(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 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.

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") Statement 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

(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 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.

(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.

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.

(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. 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 accounting estimates

In the fiscal year under review, in addition to the regular PCB waste for which the Company has recorded an allowance, the Company recorded an extraordinary expense as a provision for environment and safety measures for waste with low concentration PCB since reasonable accounting estimates can now be made for disposal costs for waste with low concentration PCB.

As a result, income before income tax for the fiscal year under review declined ¥12,939 million.

III. 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: ¥2,948,046 million

3. Accumulated contributions for construction directly deducted from acquisition costs of fixed assets: ¥684,654 million

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

Tangible fixed assets:	¥1,821,706 million
Land:	¥640,338 million
Buildings:	¥162,914 million
Structures:	¥670,438 million
Rolling stock:	¥235,948 million
Others:	¥112,067 million
Intangible fixed assets:	¥23,000 million

5. Particulars of guarantee obligations:

(million yen)

Guaranteed	Guarantee amount	Details of guaranteed obligations
Osaka Soto-Kanjo Railway Co., Ltd.	8,449	Commitment to guarantee for loans from financial institutions
Kyoto Station Building Development Co., Ltd.	2,909	
Mitsui & Co., Ltd.	759	Guarantee for urban passenger transportation business in Brazil
JR West Miyajima Ferry Co. Ltd.	64	Guarantee for the amount payable to Japan Railway Construction, Transport and Technology Agency
Hotel Granvia Osaka Co., Ltd.	18	Guarantee for the balance of prepaid cards issued
Hotel Granvia Hiroshima Co., Ltd.	7	
Total	12,208	

6. Contingent liability under the agreement for debt assumption of the bonds: ¥20,000 million

7. Long-term receivables from affiliates: ¥35,303 million

8. Short-term receivables from affiliates: ¥66,555 million

9. Long-term payables to affiliates: ¥329 million

10. Short-term payables to affiliates: ¥276,951 million

11. 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:		¥954,227 million
2.	Operating expenses:	Delivery expenses and cost of sales:	¥607,150 million
		Railway operations	¥606,942 million
		Related businesses	¥207 million
		Selling, general and administrative expenses:	¥45,583 million
		Railway operations	¥36,570 million
		Related businesses	¥9,012 million
		General tax:	¥31,970 million
		Depreciation expenses:	¥132,309 million

3. Transactions with affiliates:

Operating revenues:	¥40,479 million
Operating expenses:	¥222,498 million
Transactions other than ordinary business:	¥96,517 million

V. 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:	673 shares

VI Notes to tax effect accounting

1. Principal items of deferred tax assets:

Allowance for bonuses	¥8,363 million
Accrued social insurance contributions	¥1,257 million
Accrued enterprise taxes	¥1,752 million
Retirement allowance for employees	¥104,704 million
Allowance for environment and safety measures	¥6,480 million
Others	¥18,923 million
Subtotal of deferred tax assets	¥141,482 million
Valuation reserve	(¥6,667 million)
Total deferred tax assets	¥134,814 million

2. Principal items of deferred tax liabilities:

Evaluation difference on other securities	(¥1,189 million)
Reserve for advanced depreciation of fixed assets	(¥11,152 million)
Others	(¥7 million)
Total deferred tax liabilities	(¥12,349 million)

3. Deferred tax assets – net: ¥122,465 million

4. Effect of a change of the effective corporate tax rate:

On March 29, 2016, the "Act for Partial Revision of the Income Tax Act, Etc." and the "Act for Partial Revision of the Local Tax Act, Etc." were enacted. Consequently, the corporate tax rate and local tax rate will be changed from the fiscal year beginning on or after April 1, 2016.

Accordingly, with regard to temporary differences expected to be eliminated for the fiscal year beginning on or after April 1, 2016 through March 31, 2018, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 32.26% to 30.86%, principally. With regard to temporary differences expected to be eliminated for the fiscal year or years beginning on or after April 1, 2018, the effective corporate tax rate used for the calculation of deferred tax assets and deferred tax liabilities is changed from 32.26% to 30.62%, principally.

As a result, net deferred tax assets decreased by ¥6,270 million and income taxes - deferred (Credit) increased by ¥6,334 million.

VII. Notes to information per share

1. Net assets per share:	¥3,438.04
2. Net income per share:	¥315.50

VIII. Notes to material subsequent events

Bond Issuance

The Company, based on a resolution at the meeting of its Board of Directors held on March 16, 2016, decided on April 14, 2016 to make its 43rd issuance of domestic straight bonds under the terms and conditions below. An overview of the issuance is as follows:

1.	Total issue amount:	¥10,000 million
2.	Issue price:	¥100 for the nominal value of ¥100
3.	Interest rate:	0.714% per annum
4.	Maturity date:	April 20, 2046
5.	Issue date:	April 21, 2016
6.	Security:	None
7.	Use of proceeds	Repayment of long-term payables for acquisition of railway properties

IX. Other notes:

Approval of the Allowance Reserve Plan for the Large-Scale Renovation of Shinkansen Infrastructure

With respect to the Sanyo Shinkansen (between Shin-Osaka and Hakata), which the Company owns, the Company has recognized the need for large-scale renovation to ensure reliable transportation in the future and on March 29, 2016, obtained approval from the Minister of Land, Infrastructure, Transport and Tourism for its allowance reserve plan for the large-scale renovation of Shinkansen infrastructure, based on Article 16, paragraph 1 of the Nationwide Shinkansen Railway Development Act (1970 Act No. 71).

As a result, from the fiscal year ending March 31, 2017 through the fiscal year ending March 31, 2028, in comparison with the case where an allowance reserve is not implemented, there will be additional operating expenses of ¥4,166 million in each fiscal year. Subsequently, as a result of implementing a reversal of the allowance, from the fiscal year ending March 31, 2029 through the fiscal year ending March 31, 2038, in comparison with the case where an allowance reserve is not implemented, there will be a reduction in operating expenses of ¥5,000 million in each fiscal year.