Management's Discussion and Analysis of Operations (Consolidated Basis)

Results of Operations

In fiscal 2005, ended March 31, 2005, JR-West's operating revenues edged up 0.4% year on year, to ¥1,220.8 billion, and operating income rose 4.9%, to ¥133.1 billion. Net income soared 25.5%, to ¥58.9 billion, mainly reflecting the posting of other income, including an increase in proceeds from sales of investments in securities.

Factors Affecting Results of Operations

Factors affecting revenues

The Transportation Operations segment's operating revenues mainly comprise railway transportation revenues, which are largely determined by the number of railway users, which, in turn, is affected by numerous factors, including competition, economic conditions, and the aging of the population.

The Sales of Goods and Food Services segment's revenues primarily consist of revenues from merchandising and restaurant operations, which are affected by the economic atmosphere and competition.

A large portion of the Real Estate Business segment's revenues comes from leasing income from facilities in and around stations. Although this segment is affected by the economic climate, stations enjoy relatively stable traffic and tenants prefer offices that are conveniently located either on station premises or in the surrounding areas; therefore, JR-West believes that it is not as strongly affected by economic conditions as are its competitors.

The Other Businesses segment's revenues primarily consist of revenues from hotel and travel agency operations, which are affected by the economic atmosphere and competition. In addition, hotel rates affect hotel revenues and any condition that deters travel, including terrorist attacks, affects travel agency revenues.

Factors affecting expenses

JR-West is promoting retirement through its early retirement program while keeping hiring to the necessary minimum. As a result, JR-West has seen a decline in the number of employees and personnel costs. In fiscal 2005, JR-West's personnel costs amounted to ¥286.8 billion, down ¥7.6 billion from fiscal 2004.

Regarding non-personnel costs, JR-West is working to achieve structural cost reductions through the introduction of rolling stock and equipment that are easily maintained, mechanization, and the improvement of existing infrastructure. However, JR-West anticipates a rise in expenses related to bolstering safety via the implementation its Safety Enhancement Plan, which was established in response to the truly tragic accident that occurred between Tsukaguchi and Amagasaki stations on the JR Fukuchiyama Line on April 25, 2005.

Through fiscal 2004, JR-West expensed rail usage charges for the JR Tozai Line payable to Kansai Rapid Railway Co., Ltd., at an amount allocated evenly over the 30-year period of the rental agreement—expensing a total of ¥22.6 billion. However, on April 1, 2004, a new system was introduced wherein annual rail usage charges will be negotiated every three years. As a result, changes in the rental agreement were made in light of interest rate fluctuations and other factors. As of fiscal 2005, JR-West's annual rail usage charges were approximately ¥16.6 billion, reflecting roughly ¥6 billion in reductions as compared with charges of ¥22.6 billion in fiscal 2004.

In other expenses, the Group is focusing on interest expense. In fiscal 2005, JR-West's interest expense came to ¥42.6 billion, reflecting a ¥3.0 billion decline from the previous fiscal year, attributable to the reduction of long-term debt and payables and lower interest rates.

Liquidity and Equity Resources

Cash flows

In fiscal 2005, net cash provided by operating activities rose ¥2.7 billion from the previous fiscal year, to ¥142.9 billion, mainly owing to an increase in income before income taxes and minority interests.

Net cash used in investing activities declined ¥6.7 billion from the previous fiscal year, to ¥84.9 billion, principally reflecting an increase in proceeds from sales of investments in securities.

In net cash used in financing activities, such factors as a ¥56.8 billion net reduction in long-term debt and payables and the payment of dividends resulted in a ¥66.4 billion outflow, down ¥1.5 billion from the previous fiscal year.

As a result, cash and cash equivalents at the end of the fiscal year amounted to ¥62.2 billion, an ¥8.4 billion year-on-year decrease.

Capital demand and capital investment

In fiscal 2005, the JR-West Group's capital expenditures totaled ¥147.9 billion. In Transportation Operations, investments in new rolling stock and to enhance safety through improvements to railway infrastructure amounted to ¥126.4 billion. Investments of ¥3.1 billion, ¥7.9 billion, and ¥10.3 billion were made in the Sales of Goods and Food Services segment, Real Estate Business segment, and Other Businesses segment, respectively, and were mainly directed toward the construction of new facilities and renovation of aging facilities. In addition, at present, we plan to invest approximately ¥150 billion in the implementation of our Osaka Station Renovation and New North Building Development Plan, which is slated for completion in fiscal 2011.

Furthermore, as previously mentioned, JR-West has established a Safety Enhancement Plan, which includes infrastructure-related measures focused on the introduction of the equipment necessary to reinforce safety, including devices designed to ensure that drivers are operating trains in a safe manner, and calls for the ongoing consideration of various initiatives to bolster safety.

Liquidity and financing

The JR-West Group obtains substantial sums of cash on a daily basis from Transportation Operations, ensuring a sufficient level of cash flow. At the same time, JR-West regards improving financial efficiency as a key management task and is endeavoring to promote the effective use of Group funds through such initiatives as the introduction of a cash management service (CMS) in October 2002.

Fundamentally, JR-West uses refinancing only to procure the portion of funds required to repay existing debt not covered by the Group's cash flows. Financing instruments are selected only after a wide variety of factors, such as market trends and interest rates, are taken into consideration and include bonds and long-term loans from banks and other financial institutions.

Management's Plan for Fiscal 2005

JR-West will work to build a corporate culture that truly puts safety first by consistently placing top priority on customer safety. In addition, we will develop our Sales of Goods and Food Services and Real Estate businesses, focusing on providing products and services that target railway customers and effectively utilizing our real estate holdings in and around stations.

JR-West expects that the operating environment will remain harsh in the current fiscal year in light of such factors as intensified competition. Against this backdrop, while working to ensure the safe operation of our railway business, we are striving to gain insight into market trends, fully leverage management resources, and take strategic and timely actions to bolster competitiveness with the aim of maximizing our consolidated income and enhancing corporate value.