

Management's Discussion and Analysis of Operations

Consolidated Basis

1 Overview of Results for the Subject Period

On April 25, 2005, JR-West caused an extremely serious accident when one of its trains derailed between Tsukaguchi and Amagasaki stations on the Fukuchiyama Line, resulting in 106 fatalities and more than 500 injuries to passengers. In September 2018, work on the Memorial Grove (Inori no Mori) at the accident site was completed. JR-West remains firm in its resolve never to allow another accident like Fukuchiyama Line derailment, and will continue to deal sincerely with all persons affected by the accident, and enhance its diligent efforts to improve safety.

From fiscal 2018, the JR-West Group launched the "JR-West Group Medium-Term Management Plan 2022" and its core component, the "JR-West Group Railway Safety Think-and-Act Plan 2022." We also formulated the "JR-West Group Technology Vision" to explore how to achieve the ideal form for the JR-West Group from a technical standpoint. Targeting the achievement of the Groupwide strategies of the Medium-Term Management Plan 2022 — "Increasing Regional Value," "Increasing the Value of Railway Belts," and "Increasing Business Value," we will advance the basic strategies and business strategies in both the railway and non-railway businesses and strive realize "Our Vision" of contributing to the creation of a safe, comfortable society filled with meetings among people and smiles.

Based on these plans, JR-West pursued various measures to enhance its corporate value over the longer term. However, a series of natural disasters occurred in JR-West's service area, including the Northern Osaka Prefecture Earthquake (June 2018), the Heavy Rain Event of July 2018, and typhoons No. 21 (Jebi) and No. 24 (Trami) (September 2018). Service on the Geibi Line, disrupted by the Heavy Rain Event of July 2018, has still not been restored on certain segments. JR-West is making a concerted effort in cooperation with local communities to resume service, and continues to make efforts for recovery of the disaster stricken areas.

In addition, with the decision in November 2018 to hold Japan Expo 2025 in Osaka/Kansai (Hereinafter, Osaka/Kansai Expo), JR-West is making preparations in terms of both operations and sales, including improving reception systems for overseas visitors to Japan, and capturing demand from both Japan and abroad. We are also looking at this as an opportunity to contribute as a company bearing responsibility for public infrastructure, and are pursuing measures to achieve growth over the longer term. In addition, JR-West is making a concerted effort as a corporate group to seize growth opportunities from other major international events, such as Rugby World Cup Japan 2019, and the Olympic and Paralympic Games Tokyo 2020.

During the subject fiscal year, natural disasters had an effect in the first half, but subsequently growth in every segment was steady due to the effects of variety of measures. Operating revenues increased 1.9% from the previous fiscal year to ¥1,529.3 billion. Operating income rose 2.9% to ¥196.9 billion, and recurring profit was up 3.1% to ¥183.3 billion. Profit attributable to owners of parent declined 7.0% to ¥102.7 billion, due mainly to the recording of extraordinary losses related to natural disasters. The increase in

operating income was attributable to a reduction in operating expenses resulting from the adjustment of the schedule for previously planned removal work due to the priority given to disaster recovery in transportation operations.

In fiscal 2019, we will implement focused safety measures, etc. In addition, we will steadily implement construction in accordance with adjusted work schedules, with a priority on restoration work; improve employment conditions in order to secure human resources, etc. Accordingly, we are planning expenses at a level that is significantly higher than in the subject fiscal year. During the period of the Medium-Term Management Plan 2022, to achieve our objectives, we will work to capture growth opportunities and steadily implement the measures in the plan. With consideration for the results of those initiatives, we will provide a stable shareholder return in accordance with the shareholder return policy in the Medium-term Management Plan 2022.

While the business environment for the JR-West Group is difficult as a result of such factors as a shrinking market due to population decline, labor shortages, and increasingly severe natural disasters, we will continue our efforts to develop the strengths of the corporate group, fulfill our missions as a social infrastructure company, seek to expand our business to new markets and fields, and enhance corporate value over the longer term.

1. Transportation Operations

Safety Enhancements

The JR-West Group, based on the "Safety Think-and-Act Plan 2022," is implementing various measures aimed at establishing a structure to ensure safety throughout the entire organization, and fostering a corporate culture that prioritizes safety.

For measures to enhance safety, JR-West is pursuing safety measures for platforms and railway crossings, measures to protect against natural disasters such as earthquakes and torrential rains, and measures to enhance safety and security through the introduction of new technologies.

For platform safety measures, JR-West continued with installation of platform gates at stations with more than 100,000 daily passengers. We also made progress with safety measures at railroad crossings, including eliminating the infrequently opened railway crossings at Higashi-Yodogawa Station as part of a project to elevate the station.

In natural disaster measures, for measures to counter earthquakes, based on experience with past disasters and other data, JR-West continued with such measures as seismic reinforcing of elevated track pillars and stations, and the installation of deviation prevention guards for the Sanyo Shinkansen.

For measures to counter torrential rains, as a result of measures for reinforcement of slopes concentrating on the Kyoto-Osaka-Kobe area, JR-West managed to cut restricted train operation time along the subject sections of track by around 45% compared to prior to the introduction of measures. Further, as part of the plan through fiscal 2022, JR-West is moving forward with the slope reinforcement work, mainly along railway segments used by limited express and

special rapid trains on the Biwako Line, JR Kyoto Line, and the JR Kobe Line. Once the construction is completed, the hours of restricted operations are expected to be greatly reduced compared to before the work. In addition to these measures, from the standpoint of prioritizing safety, JR-West announced and implemented planned suspensions of train services in areas approached by typhoons that were expected to have an especially significant influence on train operations. Going forward, we will implement such measures as necessary, and in such cases continue to strive to provide relevant information in order to gain the understanding of customers and local residents.

In addition, for measures to enhance safety and security through the introduction of new technologies, in May 2018 JR-West began using an on-board safety system (D-TAS) with advanced driving assistance functionality, on the Sanyo Main Line between Nishi-Hiroshima and Iwakuni stations.

In terms of enhancing safety for the Shinkansen, based on the critical incident on the Shinkansen in December 2017, to strengthen the safety management structure, JR-West established the "Shinkansen Operations Division" as part of the Railway Operations Headquarters, and is implementing measures in terms of both tangible and intangible initiatives.

For tangible measures, JR-West is taking all possible steps to ensure the safety of trains by conducting ultrasonic tests, methodical visual checks of bogies, and other checks, as well as such measures as introducing devices to detect anomalies in bogies during operation. By March, we installed bogie anomaly detectors in all N700A trains (16-car trains), and began operation of the first ground-based bogie temperature detector.

For intangible measures, the new division will facilitate communication with on-site staff and internal cooperation between different departments, and is formulating and implementing measures in a timely manner through prompt decision-making. In particular the division steadily implements such measures for an appropriate response during emergencies as halting services without hesitation when employees detect an anomaly or safety cannot be confirmed, and securing safety through reporting to relevant parties and a prompt, systematic response.

In March, we received an evaluation report from an external member of the "Expert Advisory Committee regarding the Shinkansen Critical Incident." In the evaluation report, the measures implemented by JR-West immediately after the occurrence of the incident received a reasonably favorable evaluation, and ongoing measures were requested. Also, the investigation report of the Japan Transport Safety Board was released. Including the content of those reports, JR-West will continue to systematically advance tangible and intangible measures as it focuses on a high level of safety.

Further, JR-West is taking steps to tighten security on Shinkansen trains, including deploying protective equipment, installing additional in-car security cameras, and expanding patrols by security personnel.

Marketing Initiatives

Customer satisfaction (CS) is one of the basic strategies of the railway business. JR-West pursued measures to meet the diverse needs of customers, while working to capture and create business and tourism demand.

Along with various measures to increase customer satisfaction, JR-West continued to work to raise transport service quality on the Shinkansen, enhance the value of the railway belts in the Kansai Urban Area, promote tourism in cooperation with regions in the West Japan Area, and improve measures for accommodating overseas visitors to Japan.

Also, through the "Let's Discover West Japan" campaign to support recovery efforts from the Heavy Rain Event of July 2018, JR-West worked to stimulate tourism demand with discount tickets and tourism site PR activities.

Further, in the timetable revision that was implemented in March 2019, JR-West implemented measures to improve the quality of transportation services, including opening new lines and stations and starting fee-based seat service.

(a) Shinkansen

- Began operating the 500-series "Hello Kitty Shinkansen" (June 2018)
- Conducted the "Beauty of Japan Is in Hokuriku" and "Japanese Beauty Hokuriku" campaigns (April 2018-March 2019)
- Started the "e5489 Corporate Service," which offers Internet reservations for corporations (November 2018)

(b) Kansai Urban Area

- Completed renovation of Ibaraki Station (April 2018)
- Opened the segment of the Osaka Higashi Line between Shin-Osaka and Hanaten stations (March 2019)
- Opened Umekoji-Kyotonishi Station on the Sagano Line between Kyoto and Tambaguchi stations (March 2019)
- Started operations for the Rakuraku Harima limited express and introduced A-Seat fee-based seat service on special rapid trains. (March 2019)
- Introduced new rolling stock (227 series) on Wakayama Line, etc.

(c) West Japan Area

- Conducted the Setouchi campaign (March-June 2018)
- Conducted the "Sanin Destination Campaign" (July-September 2018)
- Began operating the Ametsuchi sightseeing train (July 2018)
- Conducted the "Let's Discover West Japan" campaign (from August 2018)
- Expanded the service area for using ICOCA (Sanyo Main Line, Ako Line, Hokuriku Main Line) (each in September 2018), Uno Line (March 2019)
- Expanded the service area for using ICOCA through onboard IC ticket checking equipment (Sakai Line) (March 2019)
- Launched the ICOCA point service and PiTaPa post pay service (October 2018)
- Decided on new long-distance train name, WEST EXPRESS GINGA, etc. (March 2019)

- (d) Enhancing customer satisfaction
- Set up a chat-based response system to inquire about lost items, and a lost items helpline (May 2018)
 - Began providing operation status information through official Twitter account (August 2018) and started to provide information in multiple languages (March 2019)
 - Enhanced guidance regarding information on train operations through expansion of train location information services, etc. (March 2019)
- (e) Assistance for overseas visitors, and generating demand
- Strengthened functions at the special counter for overseas visitors at the Green Window ticket counter (Midori-no-madoguchi) in Kyoto Station (April 2018)
 - Made the Singapore Office a branch office under local laws to strengthen sales and promotional activities to local travelers (April 2018)
 - Launched JR-WEST ONLINE TRAIN RESERVATION service for visitors to Japan (March 2019)
 - Further strengthened multilingual communication, including during times of emergency

In bus and ferry (the Miyajima Line) services, with a basis in safe transportation, JR-West worked to enhance convenience through such measures as implementing transportation improvements based on customer usage patterns.

In the first half of the fiscal year, the Transportation Operations segment was affected by natural disasters. However, usage was firm during holidays and other busy periods, due to variety of campaigns, etc. Consequently, segment revenue increased 0.3% from the previous fiscal year, to ¥953.9 billion. Operating income rose 4.6% to ¥136.2 billion as a result of a decrease in operating cost, due in part to the adjustment of the process of some of scheduled maintenance works in order to prioritize restoration work.

2. Retail Business

For the Retail Business, JR-West worked to strengthen managerial capabilities for directly-operated stores, enhance convenience inside stations, expand to areas outside stations, and establish a competitive brand.

During the subject fiscal year, JR-West expanded openings of new allied stores with Seven Eleven Japan (SEJ), and worked to improve profitability at existing locations. We also developed and opened stores inside and outside of stations.

For department stores, JR-West conducted measures to capture demand from overseas visitors to Japan. In addition, to further enhance the appeal of JR Kyoto Isetan, we are moving forward with a major renovation, the largest since the store's opening, and in December 2018 opened the expanded the first basement food floor.

Further, for the accommodation-oriented hotels included in the Retail Business segment, JR-West opened VIAINN Shin-Osaka Shomenguchi in July 2018, VIAINN Nagoya Ekimae Tsubakicho in August, and VIAINN Iidabashi Korakuen in September.

As a result, sales of goods and food services rose steadily,

mainly at SEJ allied stores. Segment revenue rose 2.4% from the previous fiscal year to ¥245.5 billion, though operating income declined 15.8% to ¥6.1 billion as a result of an increase in expenses incurred for the new opening of three VIAINN hotels, etc.

3. Real Estate Business

For the Real Estate Business, in recognition that the real estate business has a high degree of affinity with the railway business in terms of utilizing the portfolio assets of the corporate group to improve customer convenience and enhance the value of railway belts, JR-West pursued such businesses as the development and management of shopping centers, as well as sales of residential and other properties.

In April 2018, JR-West opened LUCUA FOOD HALL, a new dining area in the second basement floor of LUCUA Osaka, completing the renovation of the underground floors begun in 2017.

Also, in September we opened the third phase of the ekie commercial facility in Hiroshima Station.

In November 2018, JR-West opened VIERRA Kishibe Kento, an integrated facility on the north side to Kishibe Station, centered on Northern Osaka Health and Biomedical Innovation Town (NohBIT, also known as "KENTO").

Further, JR-West pursued real estate sales and the leasing business in promising markets, including those outside JR-West's railway belts or railway service area.

As a result, due to the boost from such factors as renovation of commercial facilities, revenues in the Real Estate Business segment rose 6.3% from the previous fiscal year to ¥148.5 billion. Operating income, however, was down 0.3% to ¥35.6 billion on expenses incurred for the opening of large-scale lease properties such as VIERRA Kishibe Kento.

4. Other Businesses

In the Hotel Business, to meet firm accommodation demand and respond to the diverse needs of customers, JR-West strengthened operational capabilities, including structures and facilities for the reception system for overseas visitors to Japan, and worked to expand openings of new hotels.

In June 2018, JR-West opened HOTEL VISCHIO OSAKA, a new type of high-class accommodation-oriented hotel for JR-West Group hotels. We also opened HOTEL VISCHIO AMAGASAKI, rebranding the previous Hopinn Aming Hotel with a direct connection to Amagasaki Station. Also, JR-West opened the cabin-style hotel First Cabin Station Wakayama Station in August 2018 and the First Cabin Station Kyoto Umekoji RYOKAN in March 2019. Further, to further enhance brand value through such measures as the speedup of decision making and guest room renovation, JR-West acquired additional shares in Nara Hotel, making the company a wholly-owned subsidiary. Going forward, together with its Granvia brand of city hotels and VIAINN brand of accommodation-oriented hotels, JR-West will develop its hotel businesses by utilizing a diverse brand structure, including in areas outside of its railway belts and railway service area.

In travel agency operations, JR-West strengthened marketing to overseas visitors to Japan, and made efforts to expand corporate sales, and sales of products for individuals such as web-only products.

As a result, operating revenues for the Other Businesses segment rose 6.7% from the previous fiscal year to ¥181.3 billion on an increase in orders in the construction business, etc. Operating income increased 6.6% to ¥21.2 billion.

2 Assets, Liabilities and Net Assets

Total assets at the end of the subject fiscal year (March 31, 2019) amounted to ¥3,237.5 billion, an increase of ¥165.7 billion from the end of the previous fiscal year (March 31, 2018). This was due mainly to an increase in non-current assets.

Total liabilities amounted to ¥2,057.7 billion, an increase of ¥102.2 billion from the end of the previous fiscal year. This was due mainly to an increase in bonds.

Total net assets amounted to ¥1,179.8 billion, an increase of ¥63.5 billion from the end of the previous fiscal year. This was due mainly to an increase in retained earnings.

From the beginning of the fiscal year under review, the Company applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). A comparison is made using numerical figures at the end of the previous fiscal year applying this accounting standard retroactively to assets, liabilities and net assets.

3 Cash Flows

Cash provided by operating activities amounted to ¥289.7 billion, an increase of ¥14.6 billion from the previous fiscal year. This was due mainly to an increase in notes and accounts payable-trade.

Cash used in investing activities amounted to ¥247.4 billion, an increase of ¥81.0 billion from the previous fiscal year. This was due mainly to an increase in purchases of property, plant and equipment.

Cash provided by financing activities amounted to ¥7.1 billion, a decrease of ¥64.2 billion from the previous fiscal year. This was due mainly to a decrease in redemption of short-term bonds.

As a result, cash and cash equivalents at the end of the subject fiscal year (March 31, 2019) amounted to ¥136.5 billion, an increase of ¥35.1 billion from the end of the previous fiscal year (March 31, 2018).

4 Awareness, Analysis and Review of Management Results in the Fiscal Year Under Review

The JR-West Group dedicated its full efforts to increasing safety in its core railway business and strived to deploy various measures tailored to the unique characteristics of each business as well as effectively utilize assets of other Group businesses.

In fiscal 2019, ended March 31, 2019, each segment performed strongly thanks to the effects of various measures taken, despite impacts felt from natural disasters in the first half of the year. As a result, operating revenues, operating income, and recurring profit all experienced an increase. However, profit attributable to owners

of the parent declined due to extraordinary losses incurred due to natural disasters.

1. Operating Revenue

Operating revenue increased 1.9% or ¥28.8 billion, from the preceding fiscal year, to ¥1,529.3 billion.

Transportation segment revenue increased 0.3% or ¥3.0 billion, from the preceding fiscal year, to ¥953.9 billion from the increase in JR-West's transportation revenues.

Within the segment, there was increasing passenger traffic on the Sanyo Shinkansen during peak travel periods thanks to the effects of measures, including various promotional campaign, etc., in addition to improved customer convenience, despite passenger traffic affected by natural disasters in the first half of the fiscal year. Also, passenger traffic on the Hokuriku Shinkansen was up over the previous fiscal year mainly from the Greater Tokyo Metropolitan Area driven by the effects of measures such as promotional campaigns for business travelers, etc. As a result, Shinkansen revenues rose 2.1%, or ¥9.3 billion over the previous fiscal year to ¥457.0 billion.

Meanwhile, conventional lines revenue declined 0.9% over the preceding fiscal year, or ¥3.7 billion yen, to ¥416.3 billion. This downturn was mainly due to the impacts of natural disasters in the first half of the fiscal year. Nevertheless, we implemented measures for increasing the value of railway belts in Kansai Urban Area, for attracting tourists in the Western Japan area by working with local communities, and improved our services for customer visiting from other countries. At the same time, we worked to increase transport service quality with timetable revisions implemented in March, which included opening new lines and stations, and launching fee-based seat services.

Retail segment revenue increased 2.4%, or ¥5.7 billion, from the preceding fiscal year, to ¥245.5 billion. We worked to expand the number of new store openings of Seven-Eleven allied to increase the profitability of existing stores. In terms of department stores, JR Kyoto Isetan, we conducted measures to capture demand from overseas visitors to Japan. In addition, we are moving forward with a major renovation, the largest since the store's opening, and opened the expanded the first basement floor. Furthermore, in terms of accommodation-oriented hotels classified under the Retail Business Segment, we opened VIA INN Shin-Osaka Shomenguchi, VIA INN Nagoya Ekimae Tsubaki-cho, and VIA INN Iidabashi Korakuen.

Real estate segment revenue increased 6.3%, or ¥8.8 billion, from the preceding fiscal year, to ¥148.5 billion. We moved ahead with the sales business, including residential and other properties along our railwaybelts, as well as opened the third phase of ekie, a commercial facility at Hiroshima Station and opened VIERRA Kishibe Kento as an integrated facility that forms the heart of Northern Osaka Health and Biomedical Innovation Town (NohBIT, also known as "KENTO") on the north side of Kishibe Station. In addition, we expanded real estate sales and the leasing business in promising markets outside of our railway belts or rail way service area.

In the Other Businesses segment, we opened Hotel Vischio Osaka as a new type of high-class accommodation-oriented hotel and rebranded Hotel Hopinn Aming, which is directly connected to Amagasaki Station, as Hotel Vischio Amagasaki. In the travel business, we strengthened marketing to sales of overseas visitors to Japan, and made efforts to expand sales of products for individuals such as web-only products. As a result, operating revenues for the Other Businesses segment rose 6.7%, or ¥11.3 billion, from the previous fiscal year to ¥181.3 billion on an increase in orders in the construction business, etc.

2. Operating Expenses

Operating expenses increased 1.8% year on year, or ¥23.2 billion, from the previous fiscal year to ¥1,332.3 billion. While there was a decrease in costs due to adjustments of the process of some of scheduled maintenance works in order to prioritize restoration work, there was an increase in costs associated with new businesses, including large lease properties and hotels.

3. Operating Income

Operating income increased 2.9% or ¥5.5 billion, from the preceding fiscal year, to ¥196.9 billion.

4. Non-operating Profit and Loss

The non-operating loss improved slightly from the preceding fiscal year to ¥13.6 billion.

5. Recurring Profit

Recurring profit increased 3.1% or ¥5.5 billion, from the preceding fiscal year, to ¥183.3 billion.

6. Extraordinary Profit and Loss

Net extraordinary profit and loss worsened ¥19.0 billion from the last fiscal year, to a loss of ¥26.1 billion. Key factors included a restoration costs from damages incurred by the Heavy Rain Event of July 2018.

7. Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent declined 7.0%, or ¥7.7 billion, from the preceding fiscal year, to ¥102.7 billion

5 Factors with Material Impacts on Management Results

1. Factors Affecting Revenues

Railway transportation accounts for the bulk of revenues in the transportation operations segment. Railway transportation revenues depend mostly on numbers of passengers served, and are, therefore, affected by numerous factors such as competition with airlines and other modes of transportation, competition with rival railway companies, economic conditions, and the falling birthrate and aging population. We believe railway passengers make transportation decisions based on considerations of safety and reliability to begin with, but also travel times, the comprehensiveness of the railway

network, fares, and levels of comfort.

Shinkansen revenues are determined mainly by the numbers of business and leisure passengers served, and are therefore affected by factors such as economic conditions, competition with airlines, and the number of inbound visitors.

In comparison, the Kansai Urban Area Railway Network (Urban Network) serves mainly work and school commuters, so its revenues, we believe, are much less affected by economic conditions. Urban Network revenues, however, are still susceptible to the falling birthrate, aging population, urbanization, and other demographic changes.

For some of JR-West's other conventional lines, intercity transport revenues are affected by economic conditions and competition with intercity bus services and private automobiles. Local line revenues, meanwhile, are subject to the impacts of competition with private automobiles, local economic conditions, and demographic changes.

Retail business segment revenues come mainly from department stores, sales of goods, and food services. They are affected by economic conditions and competition from other department stores, retailers, and restaurants. In addition, most of the businesses in this segment operate in or near train stations, so they are also subject to the impacts of railway traffic volume. That said, however, train stations enjoy relatively stable usage, so we believe the segment's operation revenues are less affected by these factors than are the operation revenues of other companies. Other factors affecting the segment's revenues include the opening of new stores and the closing of existing stores.

In the real estate business segment, revenues come mainly from the leasing of station and nearby facilities and the sale of condominiums along train lines. These revenues are affected by economic conditions and fluctuations of sales in the condominium business, but within the real estate rental business, the relatively stable customer traffic at stations, and tenant preference for stations and nearby office buildings for their convenience, means that economic conditions are less of a concern than they are for other companies in the same business.

The other businesses segment's revenues come mainly from hotel and travel agency operations. Hotel operation revenues are affected by economic conditions, room rates, competition from other hotels, and the number of inbound visitors. Revenues for travel agency operations, meanwhile, are affected mainly by competition from other travel agencies and factors, like economic conditions and terrorism, that could discourage travel.

In addition to hotel and travel agency operations, the other businesses segment includes construction, advertising, and other operations, most of which share the common purposes of strengthening the customer base for the mainstay railway operations, and enhancing station and other facilities.

2. Factors Affecting Expenses

Due to the age structure of its workforce and other factors, the Company is currently experiencing employee retirements at

elevated levels, but through recruitment and other measures, has secured the number of personnel needed to conduct business operations. For fiscal 2019, personnel costs totaled ¥215.8 billion.

Furthermore, we are securing human resources that are more advanced in age by way of an established re-employment system for retirees. This move has been made in order to facilitate a smoother transition of skills and in response to laws such as the Act on Stabilization of Employment of Elderly Persons. We are also thinking in terms of building a system that can manage the business in the coming future. In that light, we are recruiting with a focus on new graduates for the purpose of long-term employment. In addition, we also prioritize securing a diverse set of human resources, employing contract employees and mid-career recruits. In total, we have hired more than 950 employees in the fiscal year under review.

As for non-personnel costs, the Company is working to achieve cost reductions through structural measures. Railway operations are characterized by (i) ownership of a large amount of facilities and equipment entailing relatively high maintenance costs to ensure safety and (ii) a high proportion of fixed costs, which are not linked to revenues. The Company, therefore, with safety as its highest priority, is striving to cut costs through steps like the introduction of rolling stock and equipment that are easily maintained, mechanization, and the improvement of existing infrastructure. At the same time, however, the Company fully appreciates the weight of its responsibility for the accident on the Fukuchiyama Line, and the Shinkansen critical incident, and is drawing upon all of its capabilities to build a railway that assures customers of its safety and reliability. Elevated costs for enhancing safety, therefore, are expected to be incurred for the foreseeable future. It is also expected that ramping up competition with other transportation modes will entail additional costs for purposes like raising service levels, introducing IT for promoting sales, and increasing outsourcing to improve operational efficiency. Furthermore, JR-West also foresees an increase in costs attributed to electricity price hikes.

Regarding railway usage charges, JR-West leases the JR Tozai Line from Kansai Rapid Railway Co., Ltd. Since fiscal 2005, the annual amount of the railway usage charge has been renegotiated every three years and set after considering interest rate changes and other factors. As a result, railway usage charges have been reduced from fiscal 2019 onward. For fiscal 2019, expenses for the line were ¥12.9 billion.

Among non-operating expenses, interest expense is a major factor. The JR-West Group pays close attention to the levels of its total long-term liabilities and total interest expense with the aim of preserving the stability of operations. For fiscal 2019, the Group's interest expense declined ¥0.8 billion, to ¥20 billion.

6 Liquidity and capital resources

1. Cash Flows

Cash provided by operating activities increased ¥14.6 billion year on year, to ¥289.7 billion, due to factors such as an increase in notes and accounts payable-trade.

Cash used in investing activities increase ¥81.0 billion year on year, to ¥247.4 billion, because of increase in purchases of property, plant and equipment.

Cash provided by financing activities amounted to ¥7.1 billion, a ¥64.2 billion year-on-year change from the net cash disbursed in these activities in the previous fiscal year, due mainly to a decrease in redemption of short-term bonds.

As a result, cash and cash equivalents as of March 31, 2019, amounted to ¥136.5 billion, up ¥35.1 billion from the end of the previous fiscal year.

2. Capital Demand and Capital Expenditures

In fiscal 2019, the JR-West Group undertook capital expenditures totaling ¥265.7 billion, of which the transportation operations segment accounted for ¥207.2 billion, the retail business segment ¥5.6 billion, the real estate business segment ¥44.8 billion, and the other businesses segment ¥8.0 billion. Capital expenditures in the transportation operations segment consisted mainly of railroad infrastructure, primarily for safety enhancements, and purchases of new rolling stock to replace aged rolling stock. The Group's capital expenditures in the retail, real estate, and other businesses segments were mainly for construction of new facilities and renovation of aged facilities.

The JR-West Group fully appreciates the weight of its responsibility for the accident that occurred on the Fukuchiyama Line, and the Shinkansen critical incident, and is drawing upon all of its capabilities to build a railway that assures customers of its safety and reliability. All operational safety equipment and other infrastructure-based initiatives necessary for further enhancing safety are being taken and consideration of various other measures to bolster safety will continue.

3. Liquidity and Financing

The JR-West Group receives substantial amounts of cash on a daily basis mainly from the transportation operations segment, and believes it has secured a sufficient level of liquid assets.

At the same time, however, the Group recognizes that improving capital efficiency is extremely important for business management. Beginning in October 2002, therefore, the Group introduced a cash management service (CMS) to ensure effective utilization of Group funds.

Regarding financing, the JR-West Group procures funds for the portion of repayments of existing debt, capital expenditures, and other expenses that cannot be covered by the Group's free cash flows. The Group makes determinations on financing methods, including corporate bonds and long-term bank loans, based on comprehensive consideration of market trends, interest rates, and other factors. For short-term financing needs, the basic policy is to raise the necessary capital mainly through short-term bonds.

Furthermore, we have concluded commitment line contracts allowing procurement of funds, in accordance with prescribed conditions, in the event of a major earthquake.