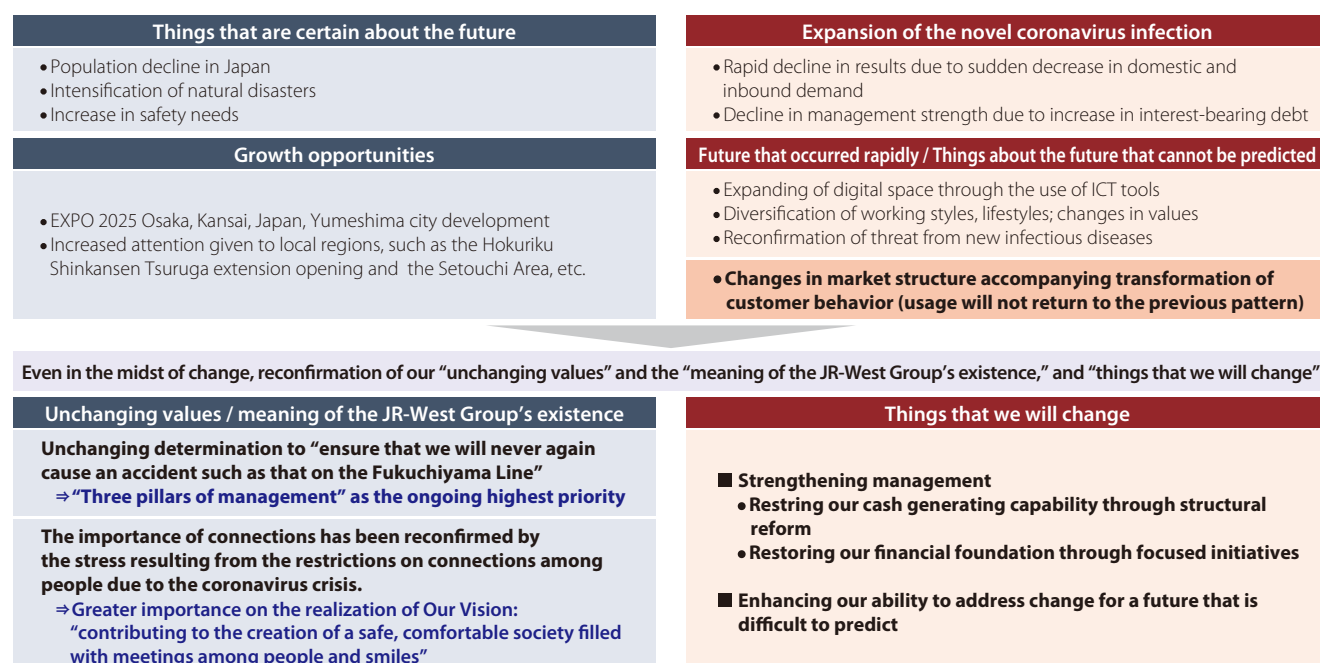


# Strategy of Value Creation for Our Vision

—Revision of the JR-West Group Medium-Term Management Plan 2022—

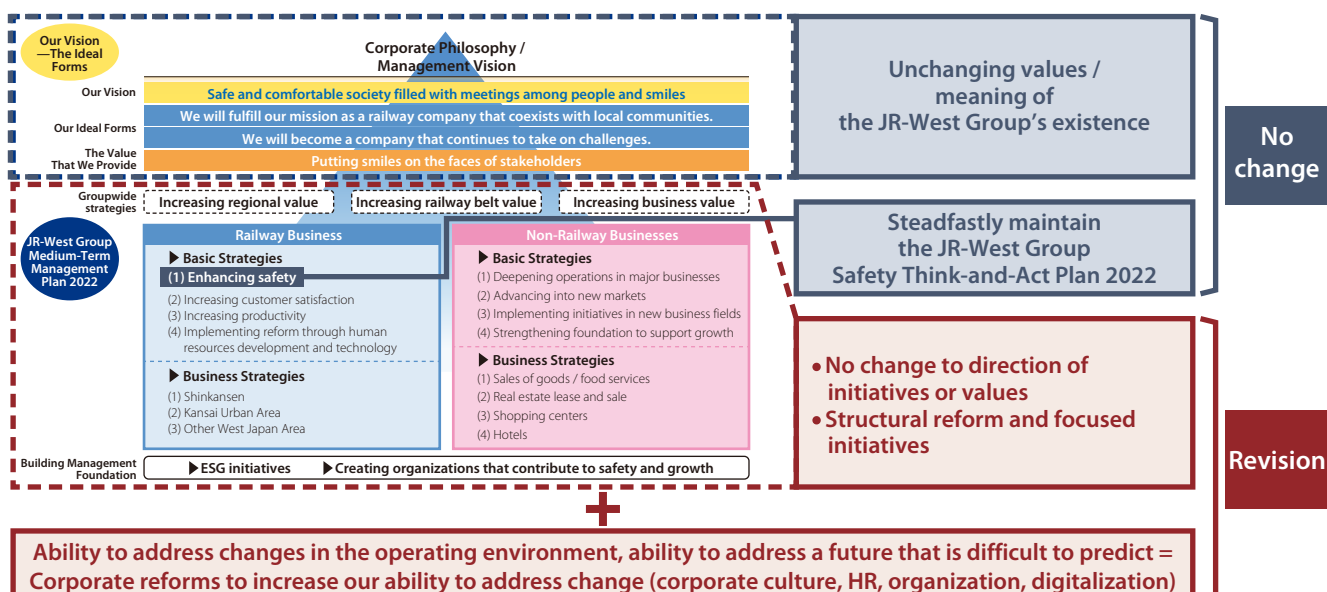
## Background to the revision and direction

The JR-West Group has been significantly affected by the novel coronavirus pandemic, both in the railway and non-railway businesses. While population decline and environmental change continue apace, including increased severity of natural disasters, changes in society are likely to come sooner than anticipated. Together with shifts in customer behavior, this means that transportation revenue in the Group's core railway business is only likely to recover to around 90% of the pre-pandemic level. Premised on this situation, we have revised the JR-West Group Medium-Term Management Plan 2022 ("MTP 2022") as we seek to realize Our Vision and Ideals, restore our financial foundation over the medium- to long-term, make reforms in line with changes in society, and set a course for safety and growth.



With regard to the plan revision, Our Vision and Ideals, which we set out in the MTP 2022, represent the unchanging values and meaning of the JR-West Group's existence, and railway safety in our core business is at the heart of the Group's management. We therefore hold firm to the JR-West Group Railway Safety Think-and-Act Plan 2022, and will continue to promote safety improvement initiatives.

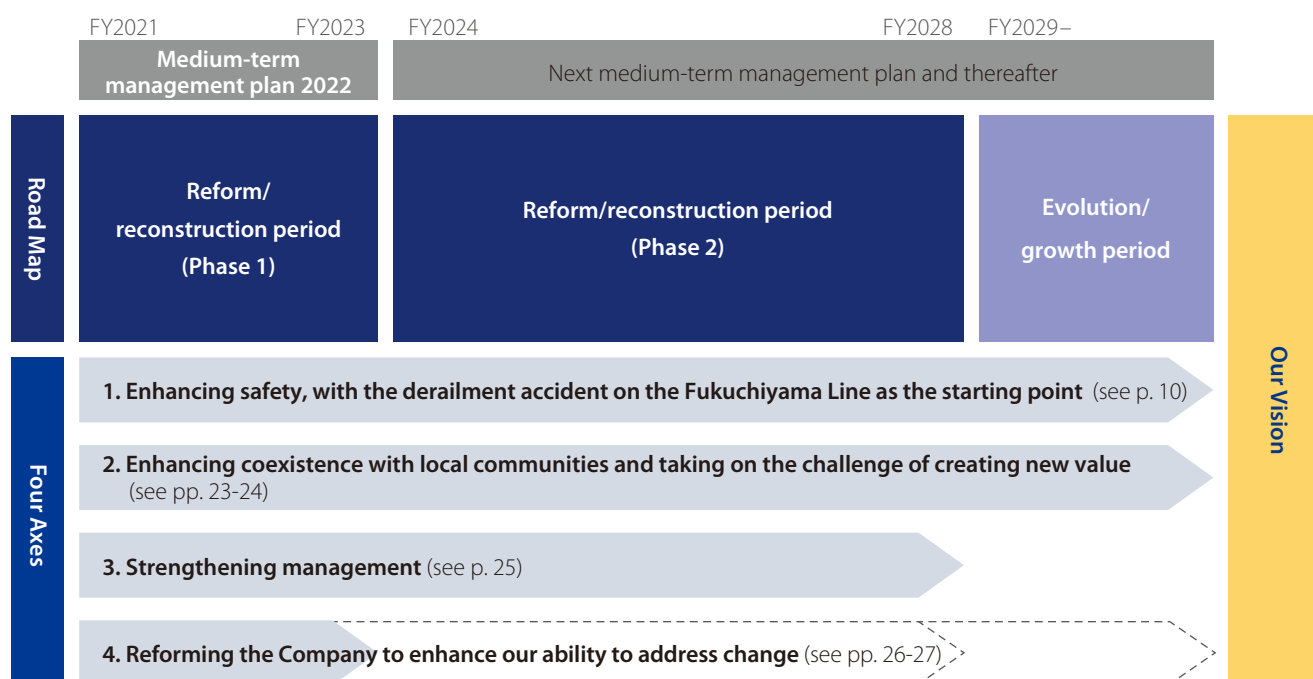
Premised on the unchanging direction of our initiatives and our unchanging values, we will prioritize structural reform and focused initiatives to obtain the maximum benefit from limited resources, while continuing to promote corporate reform to enhance our ability to address change.



## Road map for management reconstruction and business structure reform

The current revision to our plan encompasses business reconstruction from the novel coronavirus pandemic and structural reform over three phases, and sets out our overall approach to the reform/reconstruction period through to fiscal 2028, as well as the direction of our financial strategy. At the same time, we have revised our management indices to fiscal 2023.

Our medium- to long-term strategy comprises reconstruction with the four objectives listed below as the axes. Throughout the period, we will work to enhance safety, deepen coexistence with local communities, and take on the challenge of creating new value, and with regard to strengthening management and reforming the Company to enhance our ability to address change, this will be tackled intensively in the reform/reconstruction period. This will lead to further development in the subsequent evolution/growth period.



## Management Indices

As it is difficult to make forecasts for the near term, we have made estimates based on certain assumptions. Consequently, our plan will be revised as necessary based on progress with resolving the novel coronavirus pandemic. While our management indices in the final year of the medium-term management plan have been adjusted down compared with the initial targets, throughout the reform/reconstruction period we aim to rebuild organizations and human resources that will be a foundation for growth, restore management strengths, and then achieve further development in the evolution/growth period.

Management indices	Results for FY2018	FY2023 objectives (As of April 2018)	FY2023 objectives (October 2020 revision)
Consolidated operating revenues*	¥1,500.4 billion	¥1,630.0 billion	¥1,450.0 billion
Consolidated EBITDA	¥356.1 billion	¥400.0 billion	¥330.0 billion
Consolidated ROA	6.3%	Mid-6% range	Approx. 4%
(Reference) Consolidated ROE	11.3%	Approx. 10%	Approx. 9%
Transportation revenues	¥867.8 billion	¥890.0 billion	¥775.0 billion

\* Does not include the effect of the application of "Accounting Standard for Revenue Recognition," etc.

\* In regard to the target of ¥2 trillion in consolidated operating revenues by around 2030, we will reduce it temporarily, but throughout the reform/restoration period we will aim to build organizations, human resources, and management strengths that will be a foundation for growth and then to achieve further development in the evolution/growth period.

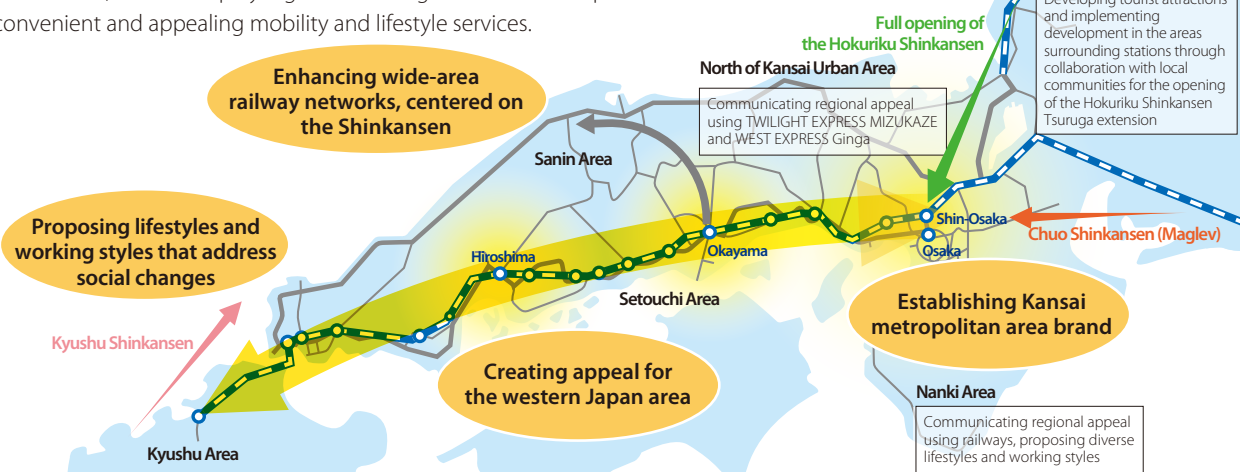
**Working even more closely with local communities to build places where people want to visit and live**

—Cultivating coexistence with local communities and creating new value—



The social and economic development of regional areas in a manner that promotes a decentralized society can be achieved by enhancing the local railway network, centered on the Shinkansen, and by further building places where people want to visit and live through fusion with lifestyle services rooted in the local community.

To realize this, we will employ digital technologies to create and provide even more convenient and appealing mobility and lifestyle services.



## Improving the wide-area railway network, centered on the Shinkansen

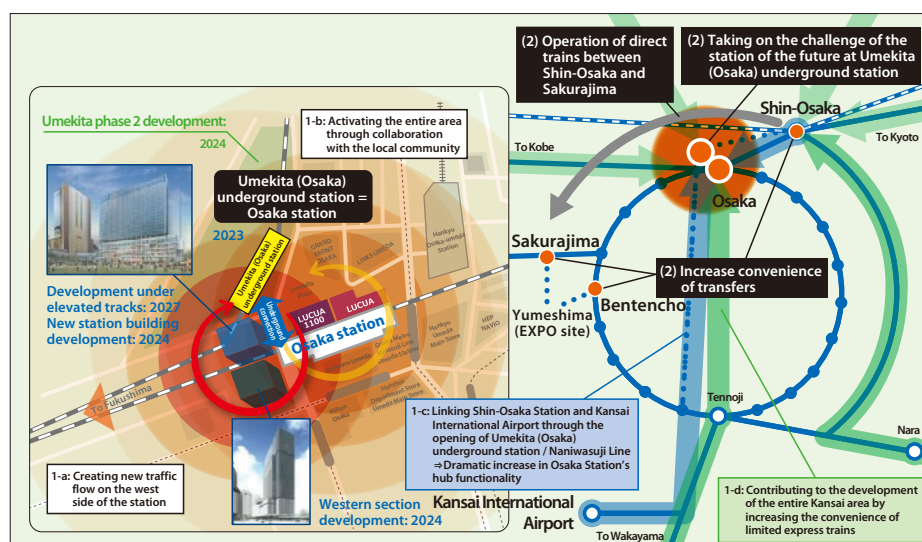
We will aim expand usage by building communities that people want to visit and live in, and by creating new value. In addition, we will further enhance the strengths of wide-area railway networks, centered on the Shinkansen, and provide safe, comfortable mobility spaces.

- Enhancing the convenience of the Sanyo Shinkansen by adding new N700S rolling stock
- Adding new W7 rolling stock for the opening of the Hokuriku Shinkansen Tsuruga extension
- Improving customer convenience by expanding ticketless services and enhancing the appeal of digital touchpoints through the use of apps



## Establishing Kansai metropolitan area brand

We will advance “city development starting from stations,” beginning with Osaka Station, our largest terminal station, while addressing changes in the operating environment. In addition, we will leverage the opportunities presented by the EXPO 2025 Osaka, Kansai, Japan to enhance the convenience of the railway network in the Kansai metropolitan area and contribute to the development of the Kansai area.



## Creating appeal for the other west Japan area

With the railway business, non-railway businesses, and local communities working together, we will roll-out content and promotions. Through these measures, we will take steps to enhance the wide-area tourism region and implement city development initiatives, centered on core regional cities. In these ways, we will work to create appeal for the other west Japan area and expand visitor and related populations.

### Setouchi Palette Project

By creating wide-area tourist routes and providing enhanced content that draws on local industry and culture, we aim to create multi-layered areas where people can discover new appeal each time they visit, and make the Setouchi Area into one large tourism area that people visit time and again.



#### ● Enhancing appeal by establishing wide-area tourism bases and accommodations

- Okayama/Uno/Kojima area
  - Setouchi GLAMPING
  - Sun Station Terrace Okayama
  - Uno Station, etc.
- Hiroshima/Mihara/Takehara area
  - Hiroshima Station building
  - Mihara Station
  - Accommodation facilities in refurbished historic houses, etc.



Setouchi GLAMPING

#### ● Operating sightseeing trains that create appealing travel routes by connecting stations with tourist spots

Sightseeing train etSETOr, which began operation in October 2020



#### ● Enhancing world-renowned island beauty as a tourism resource

We are building a new wide-area tourist route combining railways with cruise ships, by utilizing and developing the sea routes around the string of islands in the Setouchi area. This will connect local tourism resources—not just the areas alongside railway lines, but also the ports and islands where cruise ships call—and make for even more appealing trips.



The high-speed tourist cruiser SEA SPICA, which began operation in September 2020

## Proposing lifestyles and working styles that address social changes

### Validation testing of Life Subscription integration

#### Background

In recent years, the term “related population”<sup>\*</sup> has gained attention as a term referring to people who are not visitors or permanent residents, but who continually interact with a particular local area and its people in various forms. It is hoped that they will become a new vehicle for revitalizing local areas. In addition, with the coronavirus pandemic precipitating dramatic changes in society, lifestyles—including work styles—are becoming increasingly diverse, as seen for example with the spread of teleworking. Given these conditions, new lifestyles such as multi-location living and workations are drawing interest.

#### Strategy and social significance

To create new lifestyle value, we have partnered with ADDRESS Co., Ltd. and KabuK Style Inc., which provide residence

subscription services, and have started testing a service whereby products such as round trip tickets are added to a residence subscription.

As well as aiming to create new markets associated with related populations, we are supporting the realization of a decentralized society and regional development initiatives.

#### The joint vision of our Group and local communities

We are working to develop services that make new lifestyles such as multi-location living and workations more accessible to people, thereby further revitalizing the western Japan area.



<sup>\*</sup> Related population: A segment of people who continually visit and stay in a specific region other than their region of residence, whose lifestyle involves connections with that region.

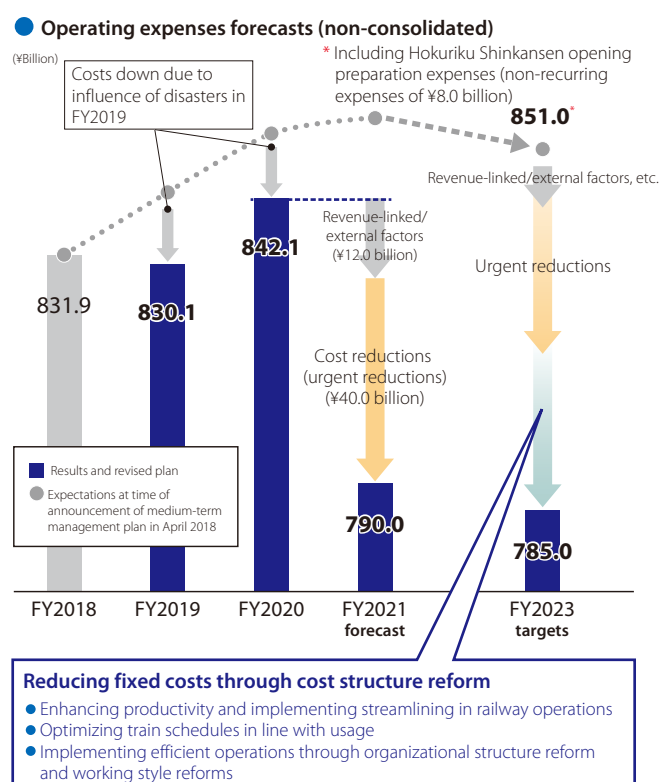
# Strengthening management

	Railway Business	Non-Railway Businesses
Enhancing coexistence with local communities (focused initiatives)	<b>Building communities that people want to visit and live in</b> (enhancing regional value / railway belt value) <ul style="list-style-type: none"> <li>● Enhancing wide-area railway networks, centered on the Shinkansen</li> <li>● Creating lifestyle services with close ties to local communities</li> </ul>	
	Establishing <b>Kansai Metropolitan Area Brand</b>	
	<b>Creating appeal for the western Japan area: Setouchi Palette Project, etc.</b>	
New value creation	<ul style="list-style-type: none"> <li>● Identifying and achieving the optimal regional transportation system</li> <li>* We will work together with local communities to identify new transportation systems that meet local needs and are sustainable, while leveraging capabilities in innovation.</li> </ul>	<ul style="list-style-type: none"> <li>● Implementing sustainable city-development initiatives by diversifying business schemes and participating in collaborative enterprises and redevelopment projects</li> <li>● Advancing the development of commercial facilities with close ties to lifestyles</li> </ul>
	<b>Creating convenient, appealing mobility and lifestyle services that are aligned with individual customer needs</b> (ICOCA, MaaS, seamless cooperation with Internet reservation services, sharing of memberships/points, effectively using data, etc.)	
Cost structure reform (reducing fixed costs)	<b>Providing services to address new needs</b> ("JR West + Life subscription," opening up markets for teleworking/workation bases, etc.)	
	<input type="checkbox"/> <b>Enhancing productivity* and implementing streamlining in railway operations</b> (* Maintenance system change centered on the establishment of CBM (see page 27), revising station sales systems, etc.) <input type="checkbox"/> <b>Optimizing train schedules in line with usage</b> <input type="checkbox"/> <b>Implementing efficient operations through organizational structure reform and working style reforms</b>	<input type="checkbox"/> <b>Rapidly reevaluating business portfolio</b> (Implementing withdrawals, exchanges, and reductions at unprofitable stores; implementing asset recombinations, etc.) <input type="checkbox"/> <b>Increasing efficiency by reevaluating business processes</b> (Thoroughly reevaluating operating systems/costs, etc.)

We will enhance coexistence with local communities and implement new value creation to secure revenues, and to "strengthen management," we will advance cost structure reform.

In particular, the reduction of fixed costs in the railway business is a major point of the recent revision to our plan, and we aim to cut operating expenses through measures such as enhancing productivity and implementing streamlining in the railway operations. We aim to realize a business structure that enables us to secure profits in a stable manner, even with transportation revenue at around 90% of the level before the novel coronavirus pandemic, through fixed cost reductions.

We are aiming for cost reductions of approximately ¥40.0 billion on a non-consolidated basis in fiscal 2021. Wherever measures can be maintained, we will continue to control costs. In addition to these urgent reductions, we will maintain fixed cost reductions through the implementation of cost structure reform.





# Corporate reform to enhance our ability address change



## Corporate culture reform, human resources, organization

As a company operating in a sector where the future is difficult to predict, continued growth requires a bold approach on two fronts: in existing business fields, making operational improvements and deepening strengths; and in new business fields, securing new opportunities and developing areas in response to environmental changes. What is important is to interact with a wide range of people and business partners, and generate innovation through a process of trial and error. We recognize that our human resources are key to realizing this goal, and we will continue to build a foundation that enables the organization and human resources to meet change and grow together, focused on maximizing each person's potential and creating a place for personal growth.

- Transformation into a corporate culture of boldly tackling uncertainty
- Building a corporate culture in which a diversity of human resources flourish, respect one another, and mutually enhance their abilities; and supporting further growth
- Building an organization and systems with the ability to execute and adapt to change, thereby strengthening Group management

## Promoting the JR West Group's Digital Strategy

For JR-West Group to continue fulfilling its role and mission as "a railway company that coexists with local communities," we will need to use digital technology to optimize the wealth of customer and operational data we have accumulated to date, and create new value in areas such as generating demand by providing services that meet diversifying needs, and enhancing productivity. And through this process, to push forward with Group operational reforms. Accordingly, in October 2020 we formulated the "JR-West Group's Digital Strategy" and are working cross-functionally and rapidly to realize the following three forms of "rebuilding."

- (1) Rebuilding the customer experience (Determining the best approach to services that address customer needs)
- (2) Rebuilding railway systems (Realizing the Technology Vision)
- (3) Rebuilding the employee experience (Working-style reform)

## Future vision of the JR-West Group's Digital Strategy

In realizing this strategy, we aim to create new value through services that transcend the boundaries between different regions and businesses, as digital technology connects the JR-West Group with society and our stakeholders. This will lead to "a safe and comfortable society filled with meetings among people and smiles."

### ● JR-West Group's Digital strategy pillars—3 things to be rebuilt—

Effectively using digital technologies and Group data (Enhancing data usage platform, etc.)	Unifying the Group / Collaborating with external partners (Membership / Point sharing)	Ability to address change / Ability to foster innovation (Culture x Organization / Framework x Human resources)
(1) Rebuilding the customer experience (Determining the best approach to services that address customer needs)	<b>● Unifying all of the JR-West Group's services, collaborating with external partners</b> ⇒Continually providing new value in line with the needs of individual customers ⇒Enhancing services with MaaS* apps (WESTER, setowa), mobile ICOCA (provisional name), e5489, etc.	
(2) Rebuilding railway systems (Realizing the Technology Vision)	<b>● Building sustainable railway systems, pursuing further safety enhancement / stable transportation</b> ⇒Taking on the challenges of operational reform and maintenance system change (CBM)	
(3) Rebuilding the employee experience (Working-style reform)	<b>● Advancing digitalization / ICT usage in the working environment</b> ⇒Employee working style reforms (enhancing motivation, creating frameworks that generate results in an efficient, high-frequency manner)	

### ● Our Vision for the JR-West Group's Digital Strategy

Realizing a safe, comfortable society filled with connections among people and smiles by creating new value through the use of digital technology to link the Group with external partners



\* MaaS (Mobility as a Service) at JR-West Group: A service that not only combines multiple transportation means to provide seamless mobility, but also enhances lifestyle services and helps to resolve regional issues

# Strategy of Value Creation for Our Vision —Revision of JR-West Group Medium-Term Management Plan 2022— Corporate reform to enhance adaptability

## Rebuilding the customer experience

### Realizing convenient and appealing mobility/lifestyle services

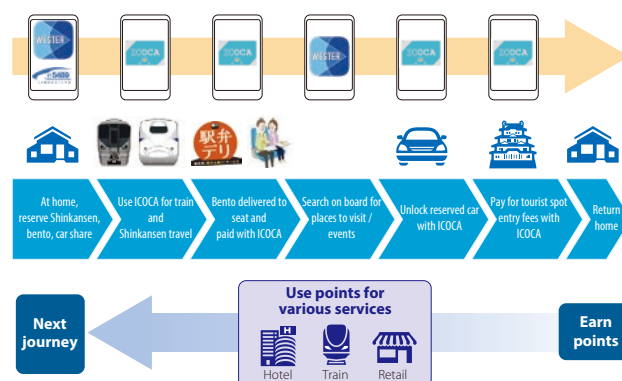
As personal tastes diversify and people increasingly gather information on smartphones, an approach that is geared toward each individual is now needed.

Based on analyses of data including customer age and gender, we will promote initiatives that integrate with each customer's travel style and services to enhance their convenience. This includes providing destination information and coupons through the MaaS apps WESTER and setowa; and "stamp rallies" (stamp-collecting campaigns) via the shopping center points app WESPO, tailored to the customer's own preferences.

Looking to the future, we will help to further invigorate the western Japan area through circular, continuous services that integrate existing reservation services with MaaS apps that

provide customer touchpoints and mobile ICOCA (provisional name), which is scheduled to launch in spring 2023.

#### Visual image of circular, continuous services using mobile ICOCA (provisional name) and MaaS

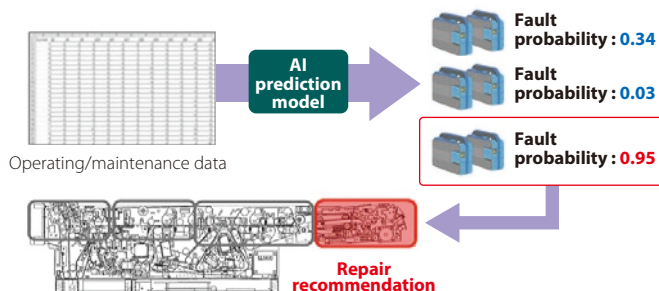


## Rebuilding railway systems

### Promoting maintenance system change

Recently, we have been working to implement CBM,\* which employs rapidly evolving AI and IoT technologies to continuously monitor the state of various equipment. Instead of the conventional style of routine inspections and replacing obsolete equipment, this method enables appropriate maintenance to be carried out in a timely manner through early abnormality detection and fault prediction. In turn, this enhances safety and efficiency without any drop in railway equipment quality.

#### Automated ticket gate fault prediction flow



A fault prediction AI model is built based on the maintenance data, and instead of repair after a fault has occurred (the previous method), pre-emptive action can be taken.

\*Condition Based Maintenance (CBM): A preventive maintenance approach whereby the state of equipment is constantly monitored/identified and maintenance is only carried out when necessary, realizing both quality and efficiency.

#### Aiming for operational reform using maintenance data

**Atsushi Matsuda**

Innovation Department (now Digital Solution Headquarters)

From my experience of railway equipment maintenance and drawing up maintenance plans, I felt that we needed to optimize systems and processes to achieve long-term sustainability of railway systems. The use of data-based fault prediction and image recognition is making it possible for us to carry out safer inspections than before, at the appropriate frequency.

For example, each automated ticket gate continually accumulates a huge volume of log data, and we use this data to predict faults, making it possible to extend the maintenance frequency from once every 1–3 months to half-yearly. At the same time, we can reduce the actual number of faults and improve customer satisfaction as well.

Also, systems for detecting abnormalities on railway lines using images captured by a specialist inspection railcar make it possible to reduce the number of walking inspections of lines.

The novel coronavirus pandemic has led to a decrease in the use of trains sooner than expected, and the need to cut the maintenance-related workload is only growing. Working together with related

parties to implement the above methods with a sense of urgency, I hope to achieve improved productivity and reform of railway operations.



# Financial Strategies

## Financial strategies

To continue to fulfill our mission as an infrastructure company, even in the event of a disaster, such as a new infectious disease or a natural catastrophe, and to enhance our ability to address change and achieve further growth through this, it is essential that we restore our financial foundation as soon as possible. To realize this goal, we aim to restore the D/E ratio to approximately 1 by the end of the reform/reconstruction period (end of FY2028).

The priority order for use of cash during the reform/reconstruction period is (1) safety capex, and (2) debt reduction, capex for growth, and shareholder returns. With safety capex as the top priority in our core railway business, the focus is on quickly reducing debt, and our basic policy is to realize more effective capex for growth and implement stable shareholder returns over the long term.

We will review the details of the reform/restoration period (phase 2), while taking this policy into account, in conjunction with the specific plans formulated in the next medium-term management plan.

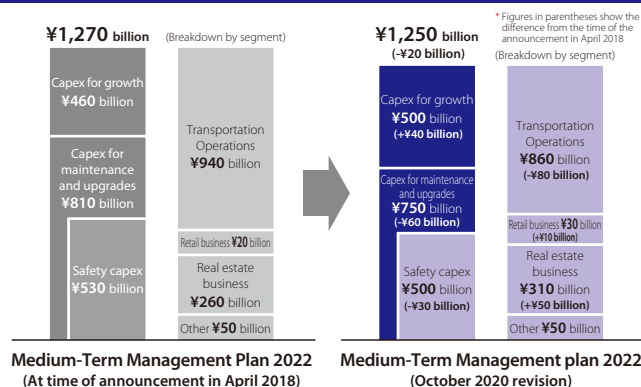


## Capital investment

With regard to our consolidated capital expenditure plan, we are projecting ¥1,250 billion over five years.

We will control the total amount of investment in safety to a certain extent, but we will steadily advance the investment necessary to enhance safety.

Although there will be some increase in growth investment in the real estate business, including further advancing development of strategic stations, we expect a reduction of ¥20 billion compared with our original plan due to factors including adjustments to the timing of obsolete equipment replacement at the non-consolidated level, and adjustments to project construction schedules.



## Shareholder return

We have a basic policy of stable dividends over the long term, and we will maintain a policy of aiming for a dividend payout ratio of approximately 35% in fiscal 2023. On the other hand, to restore our financial foundation, which has been damaged by the novel coronavirus pandemic, we are not in a position where we can acquire treasury stock over the medium to long term.

Accordingly, we decided that we had to withdraw the policy regarding the cumulative total return ratio of approximately 40%.

While we are forecasting a loss in fiscal 2021, we plan to pay dividends of ¥100 per share, in consideration of our policy of emphasizing stable dividends over the long term.

