

Management's Discussion and Analysis of Operations

Consolidated Basis

1 Overview of Results for the Subject Period

Based on the "JR-West Group Medium-Term Management Plan 2022" and the "JR-West Group Railway Safety Think-and-Act Plan 2022," the core component of the plan, the JR-West Group steadily implemented various measures to enhance its corporate value over the medium to long term.

In the railway business, our initiatives included taking steps to increase the value of railway belts by enhancing the railway network through the opening of all sections of the Osaka Higashi Line and the opening of new stations. In addition, in October 2019 we restored all segments on the Geibi Line, on which operation had been suspended for an extended period of time due to damage from the Heavy Rain Event of July 2018. In these ways, we worked to advance restoration and recovery from natural disaster damage. In non-railway operations, we implemented initiatives in each of our businesses. These included opening multiple hotels, such as HOTEL VISCHIO KYOTO, as well as the "ekie" commercial facility at Hiroshima Station. In addition, with cooperation between the railway business and non-railway businesses, the Group worked together to develop a variety of businesses that leverage synergies. Nonetheless, in the fourth quarter, the management environment was affected by the spread of the novel coronavirus infection in Japan and around the world, and JR-West worked to implement rapid countermeasures in order to prevent infection among customers and employees. Due to such factors as a decline in tourism; a trend toward people refraining from going out, including constraints on business trips; and reduced consumption, the management environment became extremely challenging.

Due to the initiatives described above, our results were firm up to the end of the third quarter, with operating revenues and operating income both higher year on year. However, due to the spread of the novel coronavirus, the usage trend changed completely and declined, and as a result, for the subject fiscal year, operating revenues were down 1.4% from the previous fiscal year, to ¥1,508.2 billion, operating income declined 18.4% to ¥160.6 billion, and recurring profit was down 19.1% to ¥148.3 billion. Profit attributable to owners of parent declined 13.0% to ¥89.3 billion.

Results by Business Segment

1. Transportation Operations

Safety Enhancements

With consideration for the train accident on the Fukuchiyama Line on April 25, 2005, JR-West remains firm in its resolve to never again cause such a serious accident, and will continue to make concerted efforts to face with sincerity all persons affected by the accident, and enhance its diligent efforts to improve safety. On that basis, we formulated the "JR-West Group Railway Safety Think-and-Act Plan 2022." We promoted initiatives to enhance safety from tangible and intangible perspectives and worked to advance the establishment of frameworks for safety management.

On the Shinkansen, we moved ahead with the introduction of new rolling stock that offers enhanced safety and reliability. In addition, we moved forward with the installation of equipment for

detecting abnormalities in bogies during operation.

As a measure to enhance platform safety, we advanced the installation of platform gates at major stations on the Sanyo Shinkansen and at frequently used stations on conventional lines.

To address intensifying natural disasters, we continued to implement measures for reinforcement of slopes and other countermeasures to heavy rains. In addition, for earthquakes, we installed derailment prevention guards on the Sanyo Shinkansen and advanced earthquake resistance reinforcement measures, such as for buildings and elevated bridges.

We also advanced crime prevention measures on trains.

(Main specific measures)

(a) Shinkansen safety measures

- Replaced the 700 series rolling stock used in direct operation between the Tokaido Shinkansen and the Sanyo Shinkansen with new rolling stock (N700A)
- Advanced installation of ground-based bogie temperature detectors for the Sanyo Shinkansen
- Advanced installation of bogie abnormality detectors on N700 series rolling stock

(b) Platform / railroad crossing safety measures

- Commenced use of platform gates for all tracks at Kyobashi Station and for certain tracks at Sannomiya Station, Osaka Station, and Akashi Station (October 2019 to March 2020)
- Commenced use of platform gates for certain tracks at Okayama Station (Shinkansen) (December 2019)

(c) Natural disaster countermeasures

- Moved forward with slope reinforcement work, mainly along railway segments used by limited express and special rapid service trains on the Biwako Line and JR Kyoto Line

(d) Onboard crime prevention measures

- Installed crime prevention equipment, etc., onboard Haruka limited express trains, expanded deployment of protective shields in stations (in stages from June 2019)
- Advanced installation of surveillance cameras in Shinkansen passenger cabins (N700A, N700 series)

Marketing Initiatives

In regard to marketing initiatives, increasing 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, including from inbound customers.

In addition, JR-West continued to work to increase transport service quality on the Shinkansen, enhance the value of the railway belts in the Kansai Urban Area, promote tourism in collaboration with local communities in the Other West Japan Area, etc.

(Main specific measures)

(a) Shinkansen

- In accordance with the concept of "invigorating the local community through tourism," implemented initiatives to support tourism to the Hokuriku Shinetsu area (campaign for the fifth anniversary of the opening of the Hokuriku Shinkansen, etc.) (Starting October 2019)

- Started “Shinkansen e-ticket service” on the Hokuriku Shinkansen (March)

(b) Kansai Urban Area

- Completed introduction of new rolling stock 323 series” on the Osaka Loop Line (June 2019)
- Implemented special operation of the Mahoroba limited express on the segment between Shin-Osaka and Nara (November to December 2019, March 2020)
- Introduced new rolling stock (271 series) on the limited express Haruka (March)

(c) Other West Japan Area

- In the Setouchi Area, conducted pre-destination campaign and verification testing for “setowa” tourism-oriented MaaS (October 2019 to March 2020)
- Expanded the service area for using ICOCA on the Wakayama Line and the Kinokuni Line (March)

(d) Providing assistance for overseas visitors

- Began to handle exclusive products for visitors to Japan through the “JR-WEST ONLINE TRAIN RESERVATION” service (May 2019)
- Opened “Travel Service Center SHIN-OSAKA” at Shin-Osaka Station (August 2019)
- Promoted sales of products in collaboration with leading platforms (KLOOK, Alibaba) etc. (Starting September 2019)
- Started ticket vending machine QR code settlement service for visitors to Japan (March)

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 nine months of the fiscal year, the Transportation Operations segment recorded solid results due to these measures and to favorable usage during holidays and other busy periods. However, due to such factors as a decline in usage resulting from the spread of the novel coronavirus infection, segment revenue decreased 2.1% from the previous fiscal year, to ¥933.4 billion. Operating income was down 22.7% to ¥105.3 billion.

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.

At JR Kyoto Isetan, we completed a major renovation of floors 2 to 5 in February. Furthermore, for the accommodation-oriented hotels included in the Retail Business segment, from May to August 2019 JR-West opened four VIA INN hotels (Kyotoeki Hachijoguchi, Hakataguchi Ekimae, Shinsaibashi Yotsubashi, Nihonbashi Ningyocho).

However, in the Retail Business segment, due to a change in the contracts of tenant stores in stations, a decline in usage due to the spread of the novel coronavirus infection, and other factors, operating revenues were down 7.9% from the previous fiscal year to ¥226.0 billion, and operating income decreased 37.2%

to ¥3.8 billion.

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 July 2019, JR West Japan Shopping Center Development Company, which operates LUCUA osaka, merged with Tennoji Shopping Center Development Co., Ltd., which operates “Tennoji MIO.” The management resources of the two companies, such as their know-how and human resources, have been unified and are being utilized for all Group shopping centers, and moving forward their specialized skills will be enhanced.

In addition, in September 2019 we launched the WESPO service, which includes JR West Group shopping center shared points and a smartphone application. We held the grand opening of “ekie” commercial facility at Hiroshima Station in October 2019, and opened “Koshienguchi Green Place,” a shopping center located outside of the station, in November 2019.

Furthermore, we pursued real estate sales and the leasing business in promising markets, including those outside JR-West’s railway belts or railway service area, and in November we opened our first VIERRA commercial facility in the Tokyo area.

In the Real Estate Business segment, due to favorable real estate sales, etc., operating revenues increased 11.2% from the previous fiscal year to ¥165.1 billion. However, due to lower shopping center usage resulting from the spread of the novel coronavirus infection, renovation work at certain facilities, etc., operating income decreased 2.2% to ¥34.9 billion.

4. Other Businesses

In the Hotel Business, 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 May 2019, we opened HOTEL VISCHIO KYOTO, a high class accommodation oriented hotel. Also, in November we finished the first phase of a complete renovation of the HOTEL GRANVIA OSAKA.

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.

In the Other Businesses segment, due to the effect of new hotel openings in the previous fiscal year, etc., operating revenues increased 1.2% from the previous fiscal year to ¥183.6 billion. However, due to a decline in usage resulting from the spread of the novel coronavirus infection, increased expenses accompanying new hotel openings, etc., operating income decreased 7.3% to ¥19.7 billion.

2 Assets, Liabilities and Net Assets

Total assets at the end of the subject fiscal year (March 31, 2020) amounted to ¥3,275.2 billion, an increase of ¥37.6 billion from the end of the previous fiscal year (March 31, 2019). This was due mainly to an increase in non-current assets.

Total liabilities amounted to ¥2,052.1 billion, a decrease of ¥5.5 billion from the end of the previous fiscal year. This was due mainly to a decrease in bonds.

Total net assets amounted to ¥1,223.1 billion, an increase of ¥43.2 billion from the end of the previous fiscal year. This was due mainly to an increase in retained earnings.

3 Cash Flows

Cash provided by operating activities amounted to ¥240.1 billion, a decrease of ¥49.5 billion from the previous fiscal year. This was due mainly to a decrease in profit before income taxes.

Cash used in investing activities amounted to ¥268.6 billion, an increase of ¥21.2 billion from the previous fiscal year. This was due mainly to an increase in purchases of non-current assets.

Net cash used in financing activities amounted to ¥29.1 billion, an increase of ¥21.9 billion from the previous fiscal year. This was due mainly to an increase in redemption of long-term bonds.

As a result, cash and cash equivalents at the end of the subject fiscal year (March 31, 2020) amounted to ¥78.2 billion, a decrease of ¥58.2 billion from the end of the previous fiscal year (March 31, 2019).

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, deployed measures tailored to the unique characteristics of each business and to effectively utilize the assets of other Group businesses.

In fiscal 2020, ended March 31, 2020, our business strategies produced strong results through the third quarter and were lifting operating revenue and operating income above the previous-year levels. However, the reduced number of users due to the spread of the novel coronavirus infection ultimately led to declines in operating revenues, operating income, recurring profit, and profit attributable to owners of parent.

1. Operating Revenue

Operating revenue decreased 1.4% or ¥21.1 billion, from the preceding fiscal year to ¥1,508.2 billion.

Transportation segment revenue decreased 2.1% or ¥20.4 billion, from the preceding fiscal year to ¥933.4 billion from the increase in JR-West's transportation revenues.

Improved convenience and promotional activities boosted Shinkansen passenger numbers during peak travel periods. However, the impact from the novel coronavirus infection led to Shinkansen revenue declined 3.5%, or ¥15.8 billion from the previous fiscal year to ¥441.2 billion.

In the conventional lines, we implemented strategies to increase

the value of railway belts in Kansai Urban Area and worked with local communities to boost tourism in Western Japan. However, the impact on the number of travelers from the novel coronavirus pandemic resulted in revenue declining 0.2%, or ¥0.7 billion yen, from the previous fiscal year to ¥415.6 billion.

Retail segment revenue decreased 7.9%, or ¥19.4 billion, from the previous fiscal year, to ¥226.0 billion. During the year, the segment completed the major renovation of floors two to five of JR Kyoto Isetan department store. The segment's accommodation-oriented hotel operations opened four new VIA INN hotels at Kyotoeki Hachijoguchi, Hakataguchi Ekimae, Shinsaibashi Yotsubashi, and Nihonbashi Ningyocho. Revenue declined for the year, however, due to changes in tenant contracts at station properties and the reduced usage owing to the novel coronavirus infection.

Real estate segment revenue increased 11.2%, or ¥16.6 billion, from the previous fiscal year to ¥165.1 billion.

While continuing to develop its sales business, including residential and other properties along our railway belts, the segment celebrated the grand opening of the "ekie" commercial facility at Hiroshima Station, and the opening of the Koshienguchi Green Place shopping center in a location outside the Koshienguchi station area. We also expanded real estate sales and the leasing business in promising markets outside of our railway belts or railway service area.

Operating revenues in the Other Businesses segment rose 1.2%, or ¥2.2 billion, from the previous fiscal year to ¥183.6 billion. During the year, the segment opened HOTEL VISCHIO KYOTO as a new type of upscale accommodation-oriented hotel and finished the first phase of a complete renovation of the HOTEL GRANVIA OSAKA. In the travel business, we strengthened marketing to overseas visitors to Japan, increased orders received from commercial clients, and implemented measures to boost consumer product sales, including offering products available only online. New hotels opened in the previous fiscal year also supported the revenue increase.

2. Operating Expenses

Operating expenses increased 1.1% year on year, or ¥15.2 billion, from the previous fiscal year to ¥1,347.5 billion. Expenses increased on higher miscellaneous costs, including systems-related costs, and costs associated with hotel openings.

3. Operating Income

Operating income decreased 18.4% or ¥36.3 billion, from the previous fiscal year, to ¥160.6 billion.

4. Non-operating Profit and Loss

Reduced interest expenses contributed to the non-operating loss improving by ¥1.3 billion from the previous fiscal year to a loss of ¥12.2 billion.

5. Recurring Profit

Recurring profit decreased 19.1% or ¥34.9 billion, from the previous fiscal year to ¥148.3 billion.

6. Extraordinary Profit and Loss

Net extraordinary profit and loss improved by ¥18.4 billion from the previous fiscal year to a loss of ¥7.6 billion. Key factors included the non-recurrence of the previous year's restoration costs after the Heavy Rain Event of July 2018.

7. Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent declined 13.0%, or ¥13.3 billion, from the previous fiscal year to ¥89.3 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 an increase in employee retirements, but recruitment and other measures are securing the personnel needed for business operations. Personnel costs totaled ¥214.6 billion in fiscal 2020.

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.

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 2020, 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 2020, the Group's interest expense declined ¥0.5 billion, to ¥19.4 billion.

6 Liquidity and capital resources

1. Cash Flows

Cash provided by operating activities decreased ¥49.5 billion from the previous fiscal year to ¥240.1 billion due to factors included lower profit before income taxes.

Cash used in investing activities increased ¥21.2 billion from the previous fiscal year to ¥268.6 billion on an increase in purchases of property, plant and equipment.

Cash provided by financing activities amounted to ¥29.1 billion, a ¥21.9 billion increase from the net cash disbursed in these activities in the previous fiscal year, due mainly to a decrease in redemption of long-term debt.

As a result, cash and cash equivalents as of March 31, 2020 amounted to ¥78.2 billion, a decrease of ¥58.2 billion from the end of the previous fiscal year.

2. Capital Demand and Capital Expenditures

In fiscal 2020, the JR-West Group undertook capital expenditures totaling ¥272.4 billion, of which the transportation operations segment accounted for ¥189.2 billion, the retail business segment ¥10.3 billion, the real estate business segment ¥64.0 billion, and the other businesses segment ¥8.7 billion. Capital expenditures in the transportation operations segment consisted mainly of safety enhancements for railroad infrastructure 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 maintains a sufficient level of cash assets.

The Group also uses short-term bonds and commitment lines for short-term loans to maintain ample access to funding when revenues decline during situations such as the current novel coronavirus pandemic. 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.

4. Financing

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 and commitment lines.

We have additionally secured commitment line contracts allowing access to funds under prescribed conditions in the event of a major earthquake.

