Management's Discussion and Analysis of Operations

Consolidated Basis

1 Overview of Results for the Subject Period

In the subject period (April 1, 2020 to March 31, 2021), social and economic activities in Japan and around the world were significantly affected by the spread of the novel coronavirus infection. Following the declaration of a state of emergency in April 2020, circumstances were extremely challenging for the JR-West Group's operations, including a decline in tourism; a trend toward people refraining from going out, including constraints on business trips; and reduced consumption.

In addition, other factors included the further spread of the novel coronavirus infection. As a result, throughout the subject fiscal year, there was no expectation of a recovery in usage.

In these circumstances, JR-West is following its four basic policies: fulfilling our mission as a social infrastructure company, protecting the safety of customers and employees, sustaining the employment, and sustaining the supply chain.

In the subject period, as mentioned above, usage declined due to the spread of the novel coronavirus infection, and as a result operating revenues declined significantly, particularly those from transportation operations. Operating revenues were down 40.4% from the previous fiscal year, to ¥898.1 billion. Operating loss was ¥245.5 billion, and recurring loss was ¥257.3 billion. After income taxes, loss attributable to owners of the parent was ¥233.2 billion.

In these extremely challenging circumstances, we are working to continue to enhance and effectively utilize our risk management system, including the steady implementation of measures to ensure railway safety and of novel coronavirus infection countermeasures for customers and employees. In addition, we are working to reduce cash outflow by thoroughly reducing expenses and controlling capital expenditure.

In addition, the entire Group will continue to advance initiatives to enable customers to use our services safely and with peace of mind. We will work to promote usage and foster new demand through the provision of value with consideration for new customer needs.

Results by Business Segment

Beginning in the current consolidated fiscal year, the Company has changed the categorization of its reporting segments. Accordingly, the following year-on-year comparisons are based on comparative analysis using figures that have been reclassified from the previous year's classifications into those of this year.

(a) Transportation Operations

With consideration for the train accident on the Fukuchiyama Line on April 25, 2005, JR-West Group remains firm in its resolve to never again allow such a serious accident, and we will continue to make concerted efforts to face with sincerity all persons affected by the accident and to enhance our 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.

In addition, in March, with the objectives of continuing to reflect on and teach the lessons of the Fukuchiyama Line accident, and of achieving railway safety into the future, we formulated "Achieving Railway Safety into the Future."

Even in the difficult circumstances caused by the influence of the spread of the novel coronavirus infection, in regard to railway safety, which is our highest priority, we will steadily advance the "JR- West Group Railway Safety Think-and-Act Plan 2022" and aim for an even higher level of safety.

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, and use of these gates has commenced on certain platforms at the Okayama, Hiroshima, and Kobe stations and on all platforms at the Tsuruhashi and Takatsuki stations. Furthermore, we continued to implement countermeasures to address intensifying natural disasters. These included heavy rain countermeasures, such as the reinforcement of slopes and the use of radar to track the amount of rainfall for use in regulating train operations when it is raining. They also included earthquake countermeasures, such as the installation of derailment prevention guards on the Sanyo Shinkansen and the implementation of earthquake resistance reinforcement measures for buildings, elevated tracks, etc.

With the highest priority on customer safety, we implemented a range of measures to prevent the spread of the novel coronavirus infection so that customers can use services with greater peace of mind.

(Main specific measures related to the prevention of the spread of the novel coronavirus infection)

- Requested cooperation in regard to the wearing of masks and the use of staggered commuting, etc.
- Implemented anti-viral and anti-bacterial processing for conventional line rolling stock and for elevators and ticket vending machines at stations
- Provided disinfectant for use by customers at Shinkansen stations and major conventional line stations
- Provided guidance regarding ventilation on trains and opened windows
- Implemented disinfection and careful cleaning of stations and rolling stock
- Provided notices on our website, etc., of congestion status by time period (trains on major railway belts and segments as well as major stations)
- Promoted the use of the seat map function on the Internet train reservation service and green ticket vending machines
- Launched limited-time, ticketless limited express tickets for joint use with commuter passes (June to September, 2020)
- Carried out thorough employee infection prevention measures and health management

In addition to implementing these countermeasures, with consideration for usage and the declaration of a state of emergency, etc., we suspended operation of certain regular trains, and for extra trains we suspended operations and revised the number of trains. Furthermore, we implemented temporary leaves for employees. Also, to facilitate flexible responses in line with changes in usage, with the March schedule revision, we implemented such measures as changing regular trains to extra trains.

Moving forward, while paying careful attention to safety and security, and focusing on the policies of the national government, etc., social conditions, and customer usage, etc., we will continue to implement step-by-step measures to achieve a recovery in demand, in line with the circumstances in each area. In addition, we will advance initiatives for individual travel; for various groups, such as the younger generation; and for travel purposes. In addition, in accordance with the key phrase NEW WAY of RAILWAY, we will identify changes in behavioral patterns and customer awareness and implement new initiatives to address various needs, such as business and vacation travel needs.

(Main specific measures to foster a recovery in demand)

- Start of operation of WEST EXPRESS Ginga (September 2020: to San-in region; December 2020: to Sanyo region)
- Sales of discount tickets: “Sanyo Shinkansen Chokuzen-wari 50,” Hokuriku Shinkansen “e-ticket Hayatoku 21/14,” etc.
- Release of MaaS apps: WESTER and setowa (September 2020)
- Implementation of “Dokodemo Doa de Doko Ikou” campaign; start of sales of “Dokodemo Doa Kippu,” etc. (October 2020 to January 2021)
- Implementation of Setouchi Hiroshima Destination Campaign (October to December 2020)
- Launch of “Super Haya-toku 21” early discount tickets in commemoration of the 10th anniversary of the start of direct operation between the Sanyo Shinkansen and Kyushu Shinkansen (January)
- Expansion of ICOCA area (North of Kansai Urban Area, Kinokuni Line, Hakubi Line, Kansai Main Line, Nanao Line) (March)
- Expanded IC commuter pass service (Launch of Shinkansen commuter pass, etc.) (March)
- Expanded e5489 ticketless service (conventional lines) (March)
- Staggered commuting point service system “ICOCA de Jisapo” (Start of service in April)

(Main specific measures for the creation of new value)

- Implemented trial of “JR West X Life / Workation Subscription” service (September to November 2020)
- Implemented “GLAMPING business” trial in the Setouchi area (September 2020 to January 2021)
- Implemented trial of cargo transportation (January, Hakubi Line; February, Sanyo Shinkansen)

Despite the implementation of these initiatives, usage declined significantly for both tourism and business travel because people refrained from going outside and going places, etc., due to the spread of the novel coronavirus infection. As a result, in the transportation operations segment, operating revenues were down 48.9% from the previous fiscal year, to ¥476.8 billion, and operating loss was ¥252.1 billion.

(b) Retail Business

In the retail business, in accordance with the guidelines formulated by various industry groups (hereinafter, “the guidelines”), we are working to implement infection countermeasures and enable customers to use our services with peace of mind.

In March, we opened the new commercial facility Eki Marche Shin-Osaka Sotoe outside the ticket gates at Shin-Osaka Station.

In addition, as one part of measures to promote digitalization, in July 2020 we started to introduce O:der, a mobile order platform, at commercial facilities and restaurants in the JR West Group.

Furthermore, in March, at Takatsuki Station and Amagasaki Station, we started operating Telecube private work booths.

Looking at the accommodation-oriented hotels included in the retail business segment, JR-West opened VIA INN Hiroshima Shinkansenguchi in June 2020, and renovated VIA INN Shimonoseki. In addition, we opened VIA INN Osaka Kyobashi in December 2020.

Nonetheless, due to the spread of the novel coronavirus infection, significant declines in revenues were recorded in sales of goods and food services, department stores, etc. As a result of this and other factors, segment operating revenues were down 37.1% from the previous fiscal year, to ¥142.2 billion, and operating loss was ¥15.0 billion.

(c) Real Estate Business

In the real estate business, as in the retail business, with consideration for the guidelines, we are working to implement infection countermeasures and enable customers to use our services with peace of mind.

In shopping centers, in June 2020 we implemented post-renovation openings at certain sections of “Kanazawa Hyakubangai,” and in September 2020 we completed the renovation of “Sun Station Terrace Okayama.” In addition, at LUCUA Osaka, in September 2020 we opened LUCUA OUTDOOR from ALBi, which includes 10 outdoor goods specialty stores.

Furthermore, in November 2020 we opened “Work Space Abeno Matsuzaki-cho,” a shared office facility, on a trial basis.

Nonetheless, in the real estate segment, due to lower real estate sales, etc., and to the influence of the novel coronavirus infection on shopping centers, segment operating revenues were down 11.7% from the previous fiscal year, to ¥145.7 billion, and operating income was down 16.2%, to ¥29.2 billion.

(d) Construction Business

In the construction business, in addition to railway related construction, we worked to secure orders for all types of construction work, such as condominiums and public facilities.

In the construction business segment, operating revenues were up 11.6% from the previous fiscal year, to ¥52.4 billion, and operating income was down 2.5%, to ¥6.8 billion.

(e) Other Businesses

In the hotel and travel agency businesses, with consideration for the guidelines, we are working to implement infection countermeasures and enable customers to use our services with peace of mind. In October 2020, we opened "Umekoji Potel KYOTO," under a new hotel brand.

Conditions remain challenging. However, going forward we will utilize government measures, etc., and work to foster a recovery in usage.

Due to the spread of the novel coronavirus infection, significant declines in revenues were recorded in the hotel business and travel agency business, among others. As a result, operating revenues for the other businesses segment declined 40.8% from the previous fiscal year, to ¥80.9 billion, and operating loss was ¥11.8 billion.

2 Assets, Liabilities and Net Assets

Total assets at the end of the fiscal year (March 31, 2021) amounted to ¥3,479.4 billion, an increase of ¥204.1 billion from the end of the previous fiscal year (March 31, 2020). This was due mainly to an increase in cash.

Total liabilities amounted to ¥2,523.4 billion, an increase of ¥471.2 billion from the end of the previous fiscal year. This was due mainly to increases in bonds and debt.

Total net assets amounted to ¥956.0 billion, a decrease of ¥267.0 billion from the end of the previous fiscal year. This was due mainly to a decrease in retained earnings.

3 Cash Flows

Looking at cash flows from operating activities, due to a decrease in profit before income taxes and other factors, net cash used in operating activities was ¥103.2 billion (compared with ¥240.1 billion in net cash provided by operating activities in the previous fiscal year).

In cash flows from investing activities, due to a decrease in purchases of property, plant, and equipment and other factors, net cash used in investing activities decreased ¥56.9 billion year on year, to ¥211.6 billion.

Looking at cash flows from financing activities, due to the raising of long-term debt, such as through bonds and borrowing, net cash provided by financing activities was ¥446.7 billion (compared with ¥291.1 billion in net cash used in financing activities in the previous fiscal year).

As a result, cash and cash equivalents at the end of the period were up ¥131.7 billion year on year, to ¥210.0 billion.

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 the subject period, usage declined due to the spread of the novel coronavirus infection, and as a result operating revenue declined significantly, particularly those from transportation operations. Operating revenues were down, with the Company experiencing an operating loss, recurring loss, and a loss attributable to owners of the parent.

(a) Operating Revenues

Operating revenue declined by 40.4% or ¥610.0 billion year-on-year to ¥898.1 billion. With regard to the transportation segment, transportation revenues declined significantly for both tourism and business travel as use dropped because people refrained from going outside and going places, etc., due to the spread of the novel coronavirus infection. As a result, operating revenues were down 48.9% or ¥456.5 billion from the previous fiscal year, to ¥476.8 billion.

Of these, operating revenue for the Shinkansen declined by 62.5% or ¥275.6 billion year-on-year to ¥165.5 billion.

Operating revenue for conventional lines declined by 38.9% or ¥161.7 billion year-on-year to ¥253.9 billion.

In the retail segment, the spread of the novel coronavirus infection brought significant declines in revenues recorded in sales of goods and food services, department stores, etc. As a result of this and other factors, segment operating revenues were down 37.1% or ¥83.8 billion from the previous fiscal year to ¥142.2 billion.

In the real estate segment, due to lower real estate sales, etc., and to the influence of the novel coronavirus infection on shopping centers, segment operating revenues were down 11.7% or ¥19.3 billion from the previous fiscal year, to ¥145.7 billion.

In the construction business, in addition to railway related construction, we worked to secure orders for all types of construction work, such as condominiums and public facilities, resulting in a year-on-year increase of 11.6%, or ¥5.4 billion, to ¥52.4 billion.

In other segments the spread of the novel coronavirus infection brought significant declines in revenues recorded at hotels and the travel business, etc. As a result of this and other factors, segment operating revenues were down 40.8%, or ¥55.7 billion from the previous fiscal year to ¥80.9 billion.

(b) Operating Expenses

Factors such as reductions in fixed expenses achieved through cost structure reforms resulted in operating expenses declining by 15.1% or ¥203.8 billion year-on-year to ¥1,143.7 billion for the fiscal year.

(c) Operating Profit and Loss

There was an operating loss of ¥245.5 billion, which was a year-on-year deterioration of ¥406.1 billion for the fiscal year.

(d) Non-operating Profit and Loss

Non-operating profit and loss improved by ¥0.4 billion year-on-year to a loss of ¥11.8 billion for the fiscal year due to factors such as employment adjustment subsidies.

(e) Recurring profit and loss

Recurring profit and loss deteriorated by ¥405.7 billion year-on-year to a loss of ¥257.3 billion for the fiscal year.

(f) Extraordinary Profit and Loss

Extraordinary profit and loss deteriorated by ¥9.6 billion year-on-year to a loss of ¥17.3 billion for the fiscal year due to factors such as a loss on the valuation of investment securities.

(g) Profit and Loss Attributable to Owners of the Parent

Profit and loss attributable to owners of the parent deteriorated by ¥322.5 billion year-on-year to a loss of ¥233.2 billion for the fiscal year.

5 Factors with Material Impacts on Management Results

(a) 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, first and foremost 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 they 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 the tenant preference for stations and nearby office buildings due to their convenience means that economic conditions are less of a concern than they are for other companies in the same business.

Revenue in the construction business segment is principally obtained from contracted construction of condominiums and public facilities and from railway-related construction. This segment is affected by economic conditions and by trends in public works and private sector investment, and furthermore, by the environment in which these are received.

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 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.

(b) Factors Affecting Expenses

Due to the age structure of its workforce and other factors, the Company is currently experiencing an increase in employee retirements, but recruitment and other measures are securing the personnel needed for business operations. Personnel costs totaled ¥183.8 billion in fiscal 2021.

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 850 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 2021, 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 2021, the Group's interest expense increased ¥0.9 billion, to ¥20.4 billion.

6 Liquidity and Capital Resources

(a) Cash Flows

Analysis of cash flows for the fiscal year under review is as relayed in "3 Cash Flows."

(b) Capital Demand and Capital Expenditures

In fiscal 2021, the JR-West Group undertook capital expenditures totaling ¥237.3 billion, of which the transportation operations segment accounted for ¥174.7 billion, the retail business segment ¥3.6 billion, the real estate business segment ¥47.1 billion, the construction business segment ¥1.0 billion, and the other businesses segment ¥10.7 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, construction, 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.

(c) 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.

(d) Liquidity and Financing

The balance of cash and cash equivalents at the end of the fiscal year was ¥210.2 billion, as a result of fundraising prompted by the effects of the spreading novel coronavirus, and we believe that we maintain a sufficient level of cash assets.

In addition to long-term borrowing through bonds and banks, etc., the Group also uses short-term bonds and commitment lines for short-term loans to maintain ample access to funding during situations that increase demand for funding, such as the prolonged 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.