Management's Discussion and Analysis of Operations

Consolidated Basis

1 Overview of Results for the Subject Period

In the subject period (April 1, 2021 to March 31, 2022), due to the ongoing influence of the COVID-19 pandemic, including the declaration and extension of the state of emergency and the rapid spread of a new variant, circumstances remained 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 these challenging circumstances, the Group continued working to enhance and operate its risk management system, including the steady implementation of measures to secure railway safety and infection prevention measures for customers and employees. In addition, the Group implemented thorough cost reductions and measures to foster demand in line with the circumstances of the pandemic.

As a result, operating revenues rose 12.1% from the previous fiscal year, to ¥1,031.1 billion. Nonetheless, the Group recorded an operating loss of ¥119.0 billion and a recurring loss of ¥121.0 billion. After taxes, loss attributable to owners of parent was ¥113.1 billion. As in the previous fiscal year, our results reflected the challenging circumstances. However, there were signs of improvement. In the third quarter, we recorded a profit for the first time in eight quarters.

In regard to finance, in September 2021 we implemented a capital increase by way of public offering in order to strengthen our financial foundation. This will support the realization of the growth strategies outlined up to this point and will enhance our ability to respond to a changing management environment, thereby enhancing corporate value. Going forward, we will strive to realize growth by capturing post-pandemic leisure demand as well as demand arising from largescale development projects, etc.

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

The Company has been applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) since the beginning of the consolidated fiscal year under review. Furthermore, the new accounting policies have been applied retroactively to all past periods in accordance with the fundamental handling principles specified in paragraph 84 of the Accounting Standard for Revenue Recognition. Therefore, the accounting standard was applied retroactively to the figures for the previous consolidated fiscal year, for the purposes of analysis and comparison with the figures for the fiscal year under review.

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 Business

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 to occur, 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 are promoting initiatives to enhance safety from tangible and intangible perspectives and working to advance the establishment of frameworks for safety management.

We will advance initiatives to promote "perspectives that are essential for the achievement of safety," which were formulated 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. Even in the difficult circumstances caused by the pandemic, 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" in its final fiscal year and aim for an even higher level of safety.

In the subject fiscal year, as a measure to enhance platform safety, we continued to advance 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 Hiroshima, Kyoto, and Shin-Imamiya stations.

Furthermore, to address intensifying natural disasters, we continued to implement countermeasures. 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 operation 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 bridges, etc.

With the highest priority on customer safety, we implemented a range of measures to prevent the spread of COVID-19 so that customers can use services with greater peace of mind.

(Main specific measures related to the prevention of the spread of COVID-19)

- 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)
- Real-time congestion information provision (trains on major railway belts / segments in the Kyoto-Osaka-Kobe Area)
- Promoted the use of the seat map function on the Internet train reservation service and green ticket vending machines
- Carried out thorough employee COVID-19 prevention measures and health management

In addition to implementing these countermeasures, with consideration for usage, the declaration of a state of emergency, priority measures for preventing the spread of infections, 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. Moreover, to facilitate flexible responses based on usage circumstances and in line with changes in usage, we implemented timetable revisions.

Moving forward, while paying careful attention to safety and security, and focusing on the policies of the national government, etc.; social conditions; customer usage; etc., we will implement measures to achieve a recovery in demand, in line with the circumstances in each area, as well as new measures that reflect changes in behavioral patterns and customer awareness.

(Main specific measures to foster a recovery in demand)

- Started sales of Nishi-Navi Green Pass (limited to travel agencies) (July 2021)
- Started sales of JR West Dokodemo Kippu / JR West Kansai Dokodemo Kippu (October 2021)
- Started sales of Winter Vacation (Children ¥1,000!) Family Tickets (December 2021)

(Main specific measures for the creation of new value)

- Expanded cargo transportation service on the Hokuriku Shinkansen (May 2021)
- Grand opening of SETOUCHI GLAMPING (August 2021)
- Provided work spaces on the Sanyo Shinkansen (October 2021)
- Provided work spaces on the Hokuriku Shinkansen (November 2021)
- In joint development with SoftBank, implemented verification testing of BRT with bus platooning style automated operations (October 2021)
- Commenced cargo transportation operations on the Sanyo Shinkansen and conventional lines (November 2021)
- Opened Aotabi, an information provision platform for generation Z consumers (January)
- Started verification testing of “green” ticket vending machines with AI-based automatic customer-handling functionality (February to March)

(Main specific measures with a focus on the post-pandemic period)

- Advanced dialog with local communities regarding sustainable transportation services, revised timetables in line with usage

In the Transportation Segment, usage increased due to a recovery in railway demand resulting from such factors as a certain level of stabilization in the pandemic circumstances. As a result, segment operating revenues increased 15.8%, to ¥544.1 billion. Nonetheless, operating loss was 144.3 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 take COVID-19 countermeasures and enable customers to use services with peace of mind.

In October 2021, we implemented the phase I renovation of Eki Marche Osaka, an in-station commercial facility at Osaka Station. In addition, we opened Uniqlo franchise stores at Shin-Osaka Station (April 2021) and Ashiya Station (March 2022).

Looking at the VIA INN brand of accommodation-oriented hotels included in the retail segment, in response to new working-style needs, the Company collaborated with STATION WORK (May 2021) and started collaboration in verification testing of the “JR West X Life / Workation Subscription” service (June 2021).

In the retail segment, operating revenues were up 14.3% year on year, to ¥124.2 billion, accompanying a recovery in railway demand resulting from a certain level of stabilization in the pandemic circumstances, etc. Nonetheless, operating loss was ¥8.6 billion.

(c) Real Estate Business

In the real estate business, as in the retail business, with consideration for the guidelines, we are working to take COVID-19 countermeasures and enable customers to use services with peace of mind.

In the shopping center business, in September 2021 we opened Shukugawa Green Place, a lifestyle-support-oriented shopping center. Furthermore, in March we opened MAROOT, a commercial facility, in southwest Toyama Station, and we implemented a complete renovation of the western-area food services zone at the underground shopping mall in front of Kyoto Station.

In real estate sales and leasing operations, we worked to expand the sales business and strengthen the leasing business. In addition, we implemented investment advisory and agency business registration (November 2021) and started to engage in asset management operations. Moreover, we successively opened Work Place COCOLO shared office locations (from July 2021), and we opened a coworking space, “DISCOVERY coworking,” at VIERRA Kokura (February).

In the real estate segment, shopping center sales recovered, and consequently lease revenues increased. Due to this and other factors, segment operating revenues were up 6.9% year on year, to ¥151.1 billion, and operating income was up 2.6%, to ¥30.0 billion.

(d) Other Businesses

In the hotel and travel agency businesses, with consideration for the guidelines, we are working to take COVID-19 countermeasures and enable customers to use services with peace of mind. In the hotel business, in March, we opened Hotel Vischio Toyama, an accommodation-oriented hotel. In travel agency operations, in the solutions business, which is outside of the scope of the travel department, we were entrusted with vaccination support activities by municipal governments.

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

In the other businesses segment, accompanying a certain level of stabilization in the pandemic circumstances, growth in orders in non-travel operations, etc., operating revenues were up 5.7% year on year, to ¥211.5 billion, and operating income was ¥2.9 billion.

2 Assets, Liabilities and Net Assets

Total assets at the end of the subject fiscal year (March 31, 2022) amounted to ¥3,702.4 billion, an increase of ¥225.0 billion from the end of the previous fiscal year (March 31, 2021). This was due mainly to an increase in cash.

Total liabilities amounted to ¥2,628.2 billion, an increase of ¥107.0 billion from the end of the previous fiscal year. This was due mainly to an increase in bonds.

Total net assets amounted to ¥1,074.2 billion, an increase of ¥117.9 billion from the end of the previous fiscal year. This was due mainly to increases in common stock and capital surplus.

3 Cash Flows

In the subject period, cash and cash equivalents at the end of the fiscal year were up ¥109.5 billion year on year to ¥319.5 billion from the end of the previous fiscal year.

Looking at cash flows from operating activities, due to improvement in loss before income taxes and other factors, net cash used in operating activities decreased ¥16.8 billion year on year, to ¥86.4 billion.

In cash flows from investing activities, due to an increase in proceeds from sales of property, plant and equipment and other factors, net cash used in investing activities decreased ¥22.9 billion year on year, to ¥188.7 billion.

Looking at cash flows from financing activities, due to the raising of long-term debt, such as through bonds and borrowing; the implementation of a capital increase by way of public offering; and other factors, net cash provided by financing activities was ¥384.6 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, due to the decrease in usage caused by the prolonged impact of the pandemic, extensive cost-cutting initiatives and demand stimulating efforts were taken according to the status of the pandemic, successfully increasing the operating revenues. Nonetheless, the Company experienced an operating loss, recurring loss, and a loss attributable to owners of the parent.

(a) Operating Revenues

Operating revenue increased by 12.1% or ¥111.0 billion from the previous consolidated fiscal year to ¥1,031.1 billion.

With regard to the transportation segment, transportation revenues increased by 15.8% or ¥74.3 billion from the previous consolidated fiscal year, to ¥544.1 billion because usage grew thanks to the recovery of railway transportation demand resulting from calming down of the pandemic to certain extents.

Of these, operating revenue for the Shinkansen increased by 27.8% or ¥46.0 billion from the previous consolidated fiscal year, to ¥211.6 billion.

Operating revenue for conventional lines increased by 8.9% or ¥22.5 billion from the previous consolidated fiscal year, to ¥276.0 billion.

In the retail segment, calming down of the pandemic to certain extents brought about a recovery of railway transportation demand, increasing the segment operating revenues by 14.3% or ¥15.5 billion from the previous consolidated fiscal year, to ¥124.2 billion.

In the real estate segment, due to increased rental income resulting from the recovery of shopping center retail sales, segment operating revenues increased by 6.9% or ¥9.8 billion from the previous consolidated fiscal year, to ¥151.1 billion.

Operating revenues in other segments increased by 5.7% or ¥11.3 billion from the previous consolidated fiscal year to ¥211.5 billion since the pandemic calmed down to certain extents and the non-travel business received increased orders.

(b) Operating Expenses

Factors such as reductions in fixed expenses achieved through cost structure reforms resulted in a decrease in operating expenses by 1.3% or ¥15.3 billion from the previous consolidated fiscal year, to ¥1,150.1 billion.

(c) Operating Profit and Loss

There was an operating loss of ¥119.0 billion, which represented an improvement of ¥126.4 billion over the previous consolidated fiscal year.

(d) Non-operating Profit and Loss

Non-operating profit and loss improved by ¥9.8 billion from the previous consolidated fiscal year due to factors such as employment adjustment subsidies, resulting in a loss of ¥1.9 billion for the fiscal year.

(e) Recurring Profit and Loss

Recurring profit and loss improved by ¥136.2 billion from the previous consolidated fiscal year, resulting in a loss of ¥121.0 billion for the fiscal year.

(f) Extraordinary Profit and Loss

Extraordinary profit and loss improved by ¥32.8 billion from the previous consolidated fiscal year due to factors such as the income from the sales of fixed assets, resulting in a profit of ¥15.4 billion for the fiscal year.

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

Profit and loss attributable to owners of the parent improved by ¥119.9 billion from the previous consolidated fiscal year, resulting in a loss of ¥113.1 billion for the fiscal year.

5 Factors with Material Impacts on Management Results

(a) Factors Affecting Revenues

Transportation

Railway transportation accounts for the bulk of revenues in the transportation 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, there are many work and school commuters in the Kansai Urban Area, so revenues are less likely to be affected by economic conditions; however, we believe those revenues are 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

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.

Real Estate

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.

Other

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.

(a) Factors Affecting Expenses

Personnel Costs

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 ¥180.7 billion in the fiscal year under review.

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 hired approximately 650 employees during the fiscal year under review.

Non-Personnel Costs

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.

Railway Rental Payments, etc.

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 2022 onward. For the fiscal year under review, expenses for the line totaled ¥10.5 billion.

Interest Expense

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 the fiscal year under review, the Group's interest expense increased by ¥0.9 billion from the previous consolidated fiscal year, to ¥21.4 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 the fiscal year under review, the JR-West Group undertook capital expenditures totaling ¥236.9 billion, of which the transportation segment accounted for ¥168.4 billion, the retail business segment ¥1.9 billion, the real estate business segment ¥61.3 billion, and the other businesses segment ¥5.2 billion. Capital expenditures in the transportation 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.

(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

The balance of cash and cash equivalents at the end of the fiscal year was ¥319.8 billion, as a result of fundraising prompted by the effects of the spreading pandemic, 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 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.