

Special roundtable

Expectations and challenges for growth of the JR-West Group from the perspective of outside directors

Outside directors not only monitor and supervise to ensure the transparency and fairness of management but also play an important role in ensuring sustained corporate growth and improving corporate value over the medium to long term. The four outside directors, Haruko Nozaki (moderator), Yoshinobu Tsutsui, Kenji Iino, and Yoshiyuki Miyabe, sat down to discuss JR-West's medium-term management plan, expectations for growth, and the role of outside directors.



Pursuing the medium-term management plan as a unified group and realizing Our Purpose

Nozaki (moderator): The JR-West Group has faced an unprecedented management crisis since the COVID-19 pandemic began in 2020. As outside directors, we have been fellow travelers alongside JR-West throughout the management reforms over this period. I would like to use this occasion to discuss the various management reforms, as well as to talk about the expectations and challenges for the future. First, I'd like to hear your thoughts on Our Purpose and the JR-West Group Medium-Term Management Plan 2025 (hereinafter the "medium-term plan"), which were announced in April 2023.

Tsutsui: The medium-term plan outlines five key strategies. The first, "Improve safety of railways," is a source of value for the Group, and it is important that JR-West invest resources into it without hesitation. Beyond that, the strategy I expect will support future growth is to "Further evolve real estate and city development," as that will increase the value of the areas along railway lines. In terms of specific business, my focus is on JCLaaS (comprehensive infrastructure management business), which is also being discussed at board meetings.

In Japan, where the population is declining, a major issue is how to promote the necessary cooperation between government agencies on a wider scale in order to maintain and manage various public infrastructure, which is becoming increasingly dilapidated. JCLaaS is a business with significant social value that addresses exactly this issue, and it is an area in which the Group can contribute as a driving force by leveraging the knowledge and experience it has cultivated to date.

Miyabe: The pandemic dealt a major blow to JR-West's operations, but I can say without fear of being misunderstood that it has also had a positive effect in that it has served as a major turning point for business and will accelerate future growth. As someone involved in corporate management, I was deeply impressed by JR-West's willingness to take on challenges without hesitation and by the process of deepening discussion about transforming into a company that is not solely dependent on transportation. However, there is also the concern that once business performance recovers, awareness regarding the great changes that have been made will fade. Even as business performance recovers, I want JR-West to maintain its commitment to taking on new challenges and not forget the aims it put into formulating the medium-term plan. As an

outside director, I will be keeping a close eye on this point.

Iino: Our Purpose, which was formulated through repeated trial and error and extensive discussion, is extremely valuable. It must be instilled in all Group employees so that it makes perfect sense to them, and management must embody and promote this spirit throughout the entire Group. To achieve this, it is important that a sense of unity be maintained among all Group employees. The other day, I had the opportunity to watch the JR-West baseball team compete in the Intercity Baseball Tournament. It was wonderful and deeply moving to see the united support of so many Group employees. I definitely hope to see this sense of unity also demonstrated in the Group's business activities.

Nozaki: I was impressed by what President Hasegawa said at a board meeting during the pandemic, that "Almost overnight, the next 10 years has arrived." Before the pandemic, while looking out the window at the Hotel Granvia Osaka, I heard about JR-West's vision for the Umekita area, and I honestly got a sense that this company is creating the future. And now, it's great that the Group has come together as one to overcome the pandemic in a speedy, unified, and cohesive way to realize Our Purpose.

Acting, from a shared desire to improve the company, as a restraint on, and collaborative partner in, the execution of business

Nozaki: At board meetings, the progress of internal discussions and important information are shared in an easy-to-understand manner before the meetings, which facilitates monitoring and appropriate decision-making by the outside directors. We, the outside directors, share the common understanding that these efforts are helping to maintain and improve the effectiveness of the Board of Directors and, thereby, helping it to develop. The continuation of these efforts is extremely important in terms of enabling outside directors to fulfill their roles. Tell us your impressions of the Board of Directors and what you keep in mind as an outside director.



Miyabe: I always feel the proposals presented at board meetings have gone through considerable internal discussion. Precisely because I am an outside director, it is my responsibility to point out things that seem wrong or odd about the proposals. Outside directors do not have enough information to go into the details of individual business activities, so we monitor things that are not visible to the executive team and provide advice to ensure that business execution does not become self-complacent. The best way for a company to be managed is for the board of directors to discuss the overall direction and for the executive team to give their input on the specific business operations, while swiftly making and executing decisions without relying too much on or favoring the outside directors; I feel that JR-West is able to do this.

Tsutsui: When I first attended a board meeting, I was pleasantly surprised to see how lively the discussions were, even though the company was a public enterprise, the former Japanese National Railways. Since then, JR-West has sincerely worked to meet society's expectations for corporate governance and has continued to push forward with governance reforms. I believe that corporate governance has, essentially, two functions. The first is the function of outside directors to restrain the executive team, which is related to pointing out whatever seems wrong or odd, as Mr. Miyabe mentioned. The second is collaboration, whereby we, based on the premise of being a restraining force, work in partnership with the executive side. Restraining and collaborating would seem to be contradictory, but I believe the role of an outside director is to strike a balance between the two. There is a tendency to call for oversight and execution to be kept separate, but, in reality, having a balance between restraining and collaborating is important.

Iino: The Board of Directors actively and openly discusses a variety of issues, and you can sense their desire to improve the company. They have responded sincerely to my questions as an outsider, and I feel that they have been very honest. As an outside director, I try to speak from three

Special roundtable

perspectives: the customer's perspective, a marketing perspective, and a common sense perspective in making management decisions. As Mr. Tsutsui said, I believe the function of an outside director is not just to restrain and supervise but also to cooperate with the executive team to improve the company. From the perspective of improving the company, these are not contradictory.

Nozaki: I was very impressed when I heard Mr. Iino visited a real estate development site for the sake of a board meeting.

Iino: Yes. At the real estate company where I worked, the mindset was "Don't talk about the site if you haven't seen it." And even when it comes to JR-West board meetings, I strive to maintain this mindset, because I believe it is important to wait to offer my thoughts about real estate until after I have seen the actual site and property.

Nozaki: When I was asked to serve as an outside director, I had the impression that they expected me to serve as a "job-type" outside director. In other words, I thought they expected me to provide advice in areas such as diversity and human resources. As an outsider, a newbie (someone new to this field), and a fool (someone not fully familiar with the company's internal affairs), I believe that my role as a job-type outside director is to bring diversity of perspective to the company.

Important points for further growth

Nozaki: What do you think is important for the JR-West Group to grow further and what are your future expectations for it?

Iino: To grow, you start with human resources. You make your company into one that attracts and empowers lots of ambitious people. And it needs to be a satisfying workplace. For example, it's important to have a sense of solidarity, individual trust, open communication, and a culture of mutual acceptance. And I want JR-West to remain the sort of company that employees can be proud of. With this in mind, it is important that management be proactive in communicating an inspiring vision. Although JR-West has a somewhat top-down culture, my hope is that each and every employee will have pride in their work and make Our Purpose their own. I want employees to ask themselves what should not be changed and what should be changed, and to protect what should not be changed while having the courage to take on the challenge of changing what should. I believe it is also the role of outside directors to support these efforts.

My field of expertise is real estate and urban development, which is not just about constructing buildings; it also encompasses a variety of functions, such as retail and commercial use. It is important to work together across companies and pool the know-how, both inside and outside the Group, as no single company can do all that is needed.



It is important to maintain a perspective that makes it possible to respond flexibly and acquire what is lacking through collaboration with parties outside the Group. Having the optimal perspective for the entire Group is key, with the newly established Marketing Headquarters at the center.

Miyabe: I believe the life design field is key to growth. This field was previously referred to as the "non-railway field," but Ms. Hazama, an outside director (Audit and Supervisory Committee member), suggested that it should be termed differently. JR-West responded immediately, and we now call it the "life design field." That is absolutely wonderful. At present, it seems like just bundling non-railway businesses together, but I believe the company should seriously develop these as a pillar of growth.

Another important thing is to have a thoroughly customer-focused perspective. Service industries like JR-West are characterized by frequent contact with customers, and the advantage of this is that it allows the company to identify issues through this contact. The key to growth in the life design field lies in the company's points of contact with customers. I believe JR-West can continue to evolve by utilizing the insights gained from railway users in multiple areas, such as hotels and retail. As Mr. Iino said, the role of the Marketing Headquarters is important in this regard. It is wonderful that President Hasegawa himself is taking on the role of general manager, a role that will shoulder the most difficulties in terms of steering the course and is, thus, at the forefront of this endeavor.

The last suggestion I would like to make is about the JR Group. After the former Japanese National Railways was divided and privatized, each company competed with the others to improve their services, achieving good results. Thirty-seven years have passed, and the situation has changed significantly. It's important for all JR companies to strengthen cooperation while sharing a customer-oriented and efficiency-oriented perspective in order to provide even better service to customers. For example, JR-East and JR-West have begun considering standardizing equipment and parts for railcars. I feel that these are the types of things

that will be required of the JR Group moving forward.

Nozaki: My suggestion for growth is to shift JR-West's thinking from equality to equity. For example, instead of a uniform approach to personnel policies and human resource development, the company can focus on tailoring these to the individual. Also, rather than judging businesses in a uniform manner, it would be good to develop policies that take into account the characteristics of each business. I also believe that a culture of praise should be a more prominent part of the corporate culture. Even in areas where JR-West appears to be doing well compared to other companies, because of a pervasive attitude of "That's nothing special," praise tends not to be given.

JR-West's strengths include a strong organization, excellent management team, and on-site capabilities that are combined with a robust sense of mission. These were the driving force that enabled the company to overcome the pandemic. However, a strong organizational culture emphasizes discipline while ideas tend to be monotone. That is why there are expectations for women to play an active role. In the future, I would like to see JR-West transcend generations, welcome differences in department, company, and corporate size, and collaborate with diverse members with different careers and values, from local communities, government agencies, and academia. There is no doubt that the new insights that arise from dialogue will accelerate the growth of individuals and organizations and shape the future.

Tsutsui: The JR-West Group is currently working on transforming its business portfolio. A part of Our Purpose reads, "Evolve connections among [...] societies." This society-oriented perspective will become even more important for the Group's future growth. Focusing not only on economic value but also on universal social values, such as safety, health, and the environment, will create business seeds (the know-how, technologies, and ideas that are the core of product and service creation) which will, in turn, create a further virtuous cycle of business value. Outside directors should also play a role in enhancing social value.



Workplace strengths and the value of work that only someone outside the company could notice

Tsutsui: When Ms. Nozaki mentioned "a culture of praise," I remembered a time that I was in a train driver's cab, accompanying them on a site inspection. I saw how thorough their attention to basic operations was. I also had a strong sense of the pride they had in their job, picking up and transporting the many passengers waiting at the stations. The essence of the business is out in the field. I said earlier that a society-oriented perspective is important, but a field-oriented perspective is equally important, and I would like to see this field-oriented perspective in the discussions at board meetings.

Nozaki: I was present during Shinkansen ballast replacement work, which began around midnight. I was deeply impressed by how this sort of late-night work supports the safe operation of the Shinkansen. Also, during my visit to a shopping center, I was very impressed by the energy and enthusiasm of the employees. Recently in Japan, there has been a tendency to make light of essential workers. I feel it's important for the JR-West Group to take the lead in communicating the importance of essential workers.

Miyabe: It's also important for employees to understand the strength that exists in their workplaces and the wonderfulness of their work, which may go unnoticed within the Group.

Nozaki: Our discussion today has brought up a variety of opinions, some of which are an extension of the discussions at board meetings and some of which are new perspectives. As outside directors, we each have our own expected roles to play. And, with each of us playing our roles, we will continue to work towards improving the corporate value of the entire JR-West Group. Thank you for your time today.