(Translation)

November 2, 2020

West Japan Railway Company

Revision of the JR-West Group Medium-Term Management Plan 2022 and Results for the First Half of the Fiscal Year Ending March 31, 2021, Summary of Question and Answer Session

【Transportation Revenues】

Q1

What is the outlook for a recovery in transportation revenues, including FY2022.3 and thereafter?

A1

The outlook for transportation revenues is based on certain assumptions. Specifically, we are assuming that the circumstances as of September will continue to the end of the year, and that there will be a gradual recovery from the beginning of the new year. For example, for the Shinkansen we are assuming that as of the end of the period usage will have recovered to approximately 60% of the level two years ago, before the coronavirus. We are also assuming that, by about the first quarter of FY2022.3, usage will have recovered to approximately 90% of the level before the coronavirus, and that subsequently they will remain at about the 90% level due to changes in customer behavior. One of the preconditions for these assumptions is that a vaccine/drug will be developed and supplied. This is our view of the “previous pattern of usage,” but we recognize that the extent to which we can create new demand is extremely important. In terms of revenues, there are many uncertain elements, and in this setting we have revised the current medium-term plan, with a special emphasis on costs. We have formulated a plan that will enable us to conduct business even at the 90% level. In regard to strengthening revenues, we will continue to do our utmost going forward.

【Cost Structure Reform】

Q2

Would you provide an overview of cost reductions and cost structure reform for FY2023.3?

A2

We are aiming for non-consolidated operating expenses of approximately ¥785.0 billion in FY2023.3. The amount of the reduction also includes a revenue-linked portion and an urgent reduction portion. For cost structure reforms, we will take such steps as enhancing productivity and implementing streamlining in railway operations, optimizing train schedules in line with usage, and implementing organizational structure reform and working style reforms. Nonetheless, it will not be possible to instantly achieve all of these within two years. The railway business requires large quantities of equipment, and accordingly it is not possible to make drastic cost reductions. However, looking at the FY2023.3 cost reductions, in terms of the scale of the cost structure reform, we will aim for a reduction of about one-third. In regard to the results of cost structure reform, during the current medium-term management plan we will reinforce the foundation so that we can show specific results under the next medium-term management plan. In any case, we are aiming for ¥790.0 billion in non-consolidated operating expenses this fiscal year and ¥785.0 billion in FY2023.3.With this level of reductions in mind, going forward we will work to facilitate cost control.

【Optimal Regional Transportation System】

Q3

Would you discuss the Company's approach to identifying and achieving the optimal regional transportation system?

A3

Usage on medium to long distance service and in the Kansai Urban Area is declining, and, practically, it is difficult to support all railway belts through the use of internal subsidies. We will need to hold discussions with local communities in regard to the optimal form of regional transportation. It is already the case that the current railway framework is not providing sufficient service or optimal transportation. We will rapidly identify connections between these circumstances, the Company's position, and the position of members of local communities and hold discussions. We are already implementing MaaS verification testing, etc., and moving forward we will work together with local communities to find and implement the optimal transport mode, such as through the use of IT, etc.

【Digital Strategy】

Q4

Would you provide an overview and the results of the JR West Group's Digital Strategy?

A4

In regard to the digital strategy, we will establish a new organization and implement solid initiatives. We have announced three things to be rebuilt — the "customer experience," "railway systems," and the "employee experience." In particular, in regard to the rebuilding of the customer experience, our ability to connect a variety of different things, including other companies, will be important. Mobile ICOCA (provisional name), which will be introduced in FY2023.3, will be the key device in these initiatives. We will aim for 5 million users of Mobile ICOCA (provisional name), and in addition we will aim for 1 million users of WESTER, an integrated MaaS app. These initiatives entail building frameworks, and we will aim for an increase in total revenues for the railway and non-railway businesses. We will also work to reduce costs by taking steps to change our maintenance system, such as transitioning from ground-based inspections to on-board inspections. We will work to deepen these measures under the next two medium-term management plans, and we will set the numerical targets at that time.

【Capital Expenditure】

Q5

In regard to maintenance and upgrade investment in the medium-term management plan revision, would you discuss changes in the amount of investment and the Company’s approach?

A5

Safety investment in the period up to FY2023.3 will be decreased by ¥30.0 billion in comparison with the initial plan. While maintaining our priority on securing safety, we will make detailed revisions, such as carefully implementing maintenance in a way that enables us to postpone the replacement of older elevators. We continue to position safety as the highest priority strategy, and safety investment is in the number one position in our priority ranking for uses of cash. We implemented approximately ¥494.0 billion in safety investment under the previous medium-term management plan, and nearly ¥470.0 billion under the plan before that. We continue to allocate large quantities of cash to safety. Maintenance and upgrade investment that is not connected to safety has been reduced by ¥30.0 billion from the initial plan. We made adjustments to investment timing in such areas as station beautification and renovation, replacement of older sales machines and automatic ticket checking machines, enhancement of social service facilities, etc.

Q6

What is the reason for the increased investment in the real estate business? Also, is there any change to the Company’s approach to growth investment from a medium to long term perspective?

A6

At the time we formulated the current medium-term management plan, there were a number of projects that had not yet taken concrete shape. Examples include the development of Hiroshima Station, the area west of Osaka Station, Toyama Station, etc. These are not projects for which plans can necessarily be accurately forecast at the point when the medium-term management plan was being formulated. As a result of consultations with related entities and careful examination of plans, these projects have now taken shape, and consequently they have become a factor increasing capital expenditure in the real estate business during the period of the current medium-term management plan. In addition, in regard to medium to long term growth investment, with consideration for current circumstances, following safety investment, our priorities for the use of cash will be debt reduction, growth investment, and shareholder return. For growth investment, we will step up close examinations and focus on effectiveness, and, of course, we will implement projects while confirming that they will provide a return that exceeds the cost of capital.

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