

Financial Results Briefing for the Fiscal Year Ended March 31, 2022

Summary of Question and Answer Session

Costs

Q1

In FY2022.3, the Company made significant progress with structural cost reductions, achieving reductions of ¥12.0 billion, versus an initial target of ¥5.0 billion. What are the factors that made this possible? Also, looking at cost structure reforms in FY2023.3, the Company is anticipating organizational structure cost reductions of ¥8.0 billion. Specifically what types of measures will the Company implement?

A1

The cost structure reforms have three elements — optimizing train schedules, enhancing productivity in railway operations, and implementing organizational structure reforms. In particular, in regard to enhancing productivity in railway operations, we are seeing the effects of the accelerated implementation of ¥20.0 billion in FY2023.3 structural reforms, such as revising maintenance standards and station systems. The details of the organizational structure reforms include limiting the number of newly hired employees and taking steps to increase workforce efficiency, improve operations, etc., in head office and branch departments, including the implementation of organizational reforms.

Q2

Looking at non-consolidated operating expenses, in FY2023.3 the Company will record maintenance expenses and miscellaneous expenses for work that had been postponed. Does this mean that maintenance expenses and miscellaneous expenses will be higher than in the period before the coronavirus? Or will they be held to a low level as a result of the continued implementation of urgent reductions?

A2

With safety as our priority, we have postponed non-urgent maintenance expenses and miscellaneous expenses. However, we cannot continue to shift these to future fiscal years indefinitely. There are certain items that we need to implement for smooth overall operations, and accordingly these will be an additional element during FY2023.3. On the other hand, there are also cost-push factors, such as the price of crude oil, and circumstances remain uncertain. As a result, there are elements for which we will continue to implement urgent reductions in FY2023.3.

Next Medium-Term Management Plan

Q3

I would like to ask about approximate numerical targets under the next medium-term management plan. In the revised medium-term management plan, the resolution of the coronavirus pandemic was an assumption, but there was a target of ¥140.0 billion for FY2023.3 consolidated operating income. What are the Company's thoughts about the next medium-term management plan?

A3

The revised medium-term management plan includes a target of ¥140.0 billion for consolidated operating income in FY2023.3, with an assumption that fundamental transportation revenues are 90% of the level in the period before the coronavirus. From the perspective of expenses, we think that we can achieve this target if revenue is at that level. One indicator will be utilizing the funds obtained through the capital increase, enhancing corporate value and rapidly returning to the circumstances in the period before the coronavirus. We will conduct proper discussions while formulating the next medium-term management plan.

Q4

The Company is moving forward with structural cost reductions. Would it be correct to say that, as a result, expenses will not increase from the level in FY2023.3? Or, will expenses increase due to the maintenance, etc., for which the timing has been adjusted? Also, in regard to capital expenditure, the plan calls for ¥245.0 billion in FY2023.3, about the same as in the period before the coronavirus. Including the portion that has been postponed, does the Company consider this to be a high level? Or has the level of expenditure been limited?

A4

We will continue to implement structural cost reductions under the next medium-term management plan. The extent to which we can control overall costs will be an important point even under the next medium-term management plan. This will include fundamental costs, external cost-push elements, and new cost elements linked to revenues, such as for digitalization. The revised medium-term management plan calls for a cumulative 5-year total for capital expenditure of ¥1,250.0 billion. However, we now expect this cumulative total to be ¥1,174.5 billion. This includes ¥245.0 billion that is planned for FY2023.3. We will steadily implement this capital expenditure going forward. We have reduced capital expenditure, and from FY2024.3 reinforcing our financial foundation will be an important issue. Accordingly, it will be necessary to carefully consider the capital expenditure plan in the next medium-term management plan.

Fares

Q5

The issue of fares is currently under discussion. Would you explain the Company's thinking regarding fares? Also, it seems likely that discussions by the national government

subcommittee will not extend to the revision of the total-cost method itself. What are the Company's thoughts regarding this issue?

A5

In regard to the state of fares, our number one request is basically for liberalization. JR-West is a company that operates in markets. We are no longer a monopoly business in a dominant position that enables us to set fares. Unlike airlines, there is a strong public element to railway fares. Overall, among the national government and consumers there is strong resistance to liberalization. However, we would like to be able to implement more liberalization in regard to the Shinkansen, etc. Fares, which form the foundation for railway company operations, are extremely important. Accordingly, the question of how to implement reforms is something that the Company has a strong interest in. The barriers to full liberalization are high. It will likely be difficult to fundamentally revise the total-cost method and realize full liberalization. First, within the current framework, we would like to unify the fare categories in the Kyoto-Osaka-Kobe area, where there are multiple fare categories and implement an easy-to-understand fare system. At the same time, we would like to be able to freely establish discounts and fares by time slot. The interim report is planned for late June. The Company would like to see these types of improvements in the report.

Q6

Specifically what types of system-related proposals has the Company made? What steps would the Company like to take at the point when the interpretation of total cost is changed?

A6

Under the current system, the only circumstance under which we can discuss fare revision is if we are going to record losses over the next three years. We cannot address circumstances like those we currently face. For example, even if fare increases are difficult during ordinary times, we have suggested a flexible approach that would enable fare increases in special circumstances such as the current situation. If such a change is approved, then we would consider fare increases that would enable the Company to secure a profit, with consideration for competitive factors, etc.

Local Lines

Q7

The Company has stated that it will work together with local communities to identify and achieve the optimal transportation system. With consideration for the recent disclosure of management information on a railway line section basis, and the reaction from municipal governments, what are the Company's thoughts about the time frame for the realization of the optimal transportation system?

A7

We acknowledge that there are a variety of opinions. Up to this point, we have conducted individual discussions with certain municipal governments. However, there have also been cases in which it has been difficult to have formal discussions about the problems of local

lines. More and more, including society, the tone of the discussions is aligned with the view that the Company can no longer maintain all of the railway line sections by itself. The national government has also started a review meeting. More time will be required, and it will also depend on the characteristics of each railway line section. However, we believe that simply repeating discussions about solutions will not be helpful. Municipal governments will need to clearly outline the role of railways as public infrastructure. We would like to work toward a decision by carefully discussing the circumstances that will be necessary for the Company to move forward. We are approaching the point for proper discussions, and we are moving in a good direction. We would like to address the issue of how rapidly we can move forward, with consideration for the conclusions of the national government's review committee.

End