

May 2022 Small Meeting, Summary of Questions and Answers

1. Overview

- (1) Date May 30, 2022 (Monday)
- (2) Participants President and Representative Director
 Kazuaki Hasegawa
- Director and Senior Executive Officer, Deputy Senior General Manager,
 Corporate Planning Headquarters
 Eiji Tsubone
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- (3) Content Questions and answers

2. Questions and answers (summary)

Q1

What is the Company's analysis of current demand trends? Also, what is the future outlook?

A1

On a monthly basis, as was disclosed, in April the Sanyo Shinkansen was 55% and the Kansai Urban Area was 85%. Looking at short-distance demand, we are starting to see recovery, including in commuter demand, and recovery to close to 90% is now within view. On the other hand, medium to long distance mobility requires careful attention. During Golden Week, there was special demand attributable to a rebound from previous mobility restrictions, but the Shinkansen has been at approximately 60% since Golden Week. Usage is not declining, but it seems to be at a standstill. For there to be an increase going forward, there will have to be a resolution of psychological resistance. This year, there are plans to hold the Gion Festival in Kyoto in the summer. We expect to see a return of liveliness through these types of seasonal attractions, etc., and a recovery in inbound, etc., will also help to enhance a sense of freedom. We are also looking forward to economic measures, such as the restart of the Go To Campaign. Important factors in reaching the objective of 90% will be how circumstances develop in the summer and the extent to which business demand is fostered.

Q2

What is the outlook for cost levels over the medium to long term? Is there a possibility that the Company will be able to reduce fixed costs further as a result of such factors as technical development? Or, is it possible that the Company will record future-focused, upfront expenses when demand recovers?

A2

We are continuing to implement urgent reductions this year. For example, there are non-

recurring items, such as bonus reductions, as well as items that will create a burden in future years. We are working to replace these with permanent reductions through the implementation of railway structural reforms. In FY2022.3, we made ¥12.0 billion in reductions of this type. These are not something that can be completed overnight. We will not be satisfied simply with the achievement of our FY2023.3 target of reductions of ¥20.0 billion. Rather, we are aiming for further reductions in the next fiscal year and thereafter. On the other hand, it is also important to reduce the current break-even point. To maintain stable management over the long term, we must implement capital expenditure, including growth investment, even in these challenging circumstances. Accordingly we recently strengthened our financial foundation through the implementation of a capital increase. We will need to consider a balance between medium to long term profit growth and short term profitability improvement.

We have been giving priority to securing cash even while implementing urgent reductions, and we are now in the process of transitioning to a stage at which we will need to think from a long-term perspective.

Q3

Umeda area development initiatives will be moving forward, including the businesses of other companies. What is the Company's view of office demand and Umeda's value as a commercial area? Also, in regard to the concentration of the Osaka community in Umeda, that might be good for private railway companies, which have limited operational areas, but what is the significance of the development of Umeda in the context of the appeal of Kansai and the entire western Japan area?

A3

The businesses of other companies have targeted Expo 2025 Osaka, Kansai, Japan, as well as the integrated resort that Osaka is aiming to bring to the region. We believe that these businesses are making progress in Osaka. For JR-West, we are advancing infrastructure projects, such as the redevelopment of Osaka Station and the surrounding area as well as Umekita underground station.

In addition, the center of attention in Umeda will shift to the western side, such as Umekita Phase 2. Moreover, there will also be the development initiatives of other companies, and the greater Umeda area will continue to expand. In these ways, Umeda is an area with extremely high potential. Even in the current circumstances, office locations are shifting to northern Osaka (Umeda area), and this shift will also have potential going forward. We do not think that there will be an oversupply of office space, even under current development plans. However, rather than the previous large floors, development will reflect an awareness of small units, such as shared offices, as well as communication spaces, etc. From the perspective of entertainment, we plan to establish a theater through a joint project with Japan Post and others.

Osaka will be invigorated by Expo 2025 Osaka, Kansai, Japan, as well as by the integrated resort that the regional government is aiming to bring to the region. Furthermore, the Naniwasuji Line will open around 2030, offering service directly connecting Osaka Station and Kansai airports. In that respect, we will work to build an Umeda that plays a central role in the invigoration of all of Kansai, becomes the gateway for tourism, and can fulfill the function of moving people to western Japan and Kyushu. It will also have important value for Groupwide businesses. The time frames will vary, but by shining a spotlight on cities that will become other bases, such as Kanazawa, Toyama, Sannomiya, Okayama, and Hiroshima, we would like to leverage the development of Umeda and other cities in order to connect cities and to lead to increases in customer mobility. As core regional cities become invigorated, connecting them together will facilitate new mobility demand, and they will

become bases for business and tourism as well as new lifestyles and working styles. We expect that to lead to new railway demand, and we think that shining a spotlight on regional bases will be an important theme.

Q4

In regard to the digital strategy, what challenges does the Company currently face that will have to be surpassed in order to realize the strategy? Also, is the Company expecting the digital strategy to be realized around the time of the medium-term management plan that will be implemented after the next plan?

A4

Currently, our businesses have a large number of customers, but we have not developed a proper understanding of individual customers. By connecting to individual customers through digital technologies and developing a better understanding of customer needs, we will establish a virtuous cycle for the provision of services with additional value. In this way, we will increase the number of customers, including repeat customers, on a Groupwide basis and build the JR-West business area. This is the focus of our digital strategy. We plan to release Mobile ICOCA next spring, and our first task will be to make it into an indispensable smartphone app. We will need to see that it is commonly used as a means of making payments. In the field of MaaS, there will likely be some issues in regard to the leveraging of our strengths as a transportation company. However, in Kansai there has been some movement toward working together with other companies to build Kansai MaaS. We will likely move ahead together with others.

In addition, there is also the question of what we will do in regard to the depth of our human resources. We are conducting internal recruiting and mid-career hires, and we are also seconding employees outside the Company for educational purposes. However, it will be important to move forward with open innovation initiatives jointly with other companies. Up to this point, it was frequently the case that we worked from producer-based standards and did as much as we could on our own, but going forward we will need to work from a user-based perspective.

In regard to marketing initiatives that utilize point systems, we are working to reinforce our data analytics team. We have also formed an agile development teams for apps, and we are establishing a framework for continually improving apps on our own. Currently, we can implement updates about once every three months. From the perspectives of speed and flexibility, it is important to bring these types of tasks in-house. Additionally, we will collaborate with external partners.

It will be important to implement medium to long term measures with a focus on the future. This will likely depend on the time span determined for the next medium-term management plan and subsequent plans. That said, it will also be necessary to produce a certain level of results in the short term, and we will consider this in detail in the discussions for the next medium-term management plan.

Q5

Discussions regarding the fare system are under way. What are the Company's thoughts about future fare policies? Also, what is the Company's view regarding the best approach to fare shifting, such as a system under which users bear the burden of barrier-free initiatives?

A5

We would like to be able to implement pricing measures through flexible operations and fare liberalization. However, full liberalization will be difficult. We would like to see such

initiatives as the introduction of flexibility into operations while maintaining the total-cost method to a certain extent. For example, there is potential for the advancement of deregulation while maintaining overall neutrality, such as setting fares by time period and providing off-peak commuter passes. However, our impression is that it will be difficult to reform the total cost method, which is the root of the issue. Under the total cost method, an application cannot be filed unless the cost calculations show losses for the next three years. We are aiming for a recovery in profits through a recovery in usage, and it is difficult to make a plan for losses. Management circumstances are challenging, and there are also cost push factors. In these circumstances, we believe that it will be necessary to raise prices within a range that does not result in a loss of price competitiveness. We are not in a position in which we can raise fundamental fares under the current total cost method rules. However, while taking into consideration price competitiveness in the market, we would like to implement measures that do not rely on that procedure, in other words, measures that can be implemented through notification.

In addition, in regard to the user-burden system for barrier-free initiatives, the Company has not yet filed an application, but we are formulating a work plan that is likely to utilize this system. We are now examining the scope of related work, how much to do, and what resources will be necessary. A monopoly might be able to shift everything to their prices without hesitation, but JR-West is in competitive relationships not only with other railways but also with other transportation services, and in this setting we cannot afford to lose customers. It is a fact that the provision of safer, more-comfortable service entails costs. Even when a portion of those costs are shifted to the customer, it will be important to create a virtuous cycle in which customers use services because the price is appropriate. This will be important not just for JR-West but for the entire industry. If this new approach becomes feasible, we would like to secure the needed resources through an appropriate method.

Q6

In regard to the disclosure of profitability on local routes, would you discuss the purpose and future direction of these initiatives?

A6

We have disclosed profitability on certain railway line segments, making it easier for people in the local communities to directly view the circumstances. There is tendency toward simple discussions, such as whether or not a line will be discontinued. However we would like to discuss such matters as the positioning of the transportation system in city development, if railways will have a fundamental role, and, if so, how the railways will be sustained. There is a tendency for our intentions to be difficult to communicate, leading to frictions. We would like to advance dialog with local communities by continuing to respectfully explain the circumstances.

The best approach to local routes is also being discussed at the MLIT review meeting. In regard to the establishment of a venue for the start of discussions between JR-West and local municipal governments about the best approach to local routes, there are some who believe that the national government should make an active contribution, and JR-West agrees with that point of view. It should not be JR versus the local governments. In terms of the solution, we would like to see transportation positioned solidly in city development, with growth in convenience and sustainability. The financial framework to support that should be handled through consensus building, and there might be a need for the national government to contribute.

In regard to such issues as (1) a shift to other modes of transportation, such as buses, and (2) the separation of infrastructure from operations in railways, there are discussions under way about the need for the national government and municipal governments to make a certain

level of contribution to infrastructure and to make financial commitments. We will focus on how the solution takes shape, and reflect that in our discussions as we go forward.

Q7

In preparing for the next medium-term management plan, which issues have a high priority? Also, what will the Company focus on?

A7

The framework of the next medium-term management plan will be the steps that we will take in order to realize both the restoration of our financial foundation and an increase in corporate value. On that basis, there are three major points.

First, we must continue to implement structural reforms. Second, there are a number of perspectives. What will be done with synergistic fields, such as coexistence with local communities and city development? How will increases be achieved in new mobility creation, railway belt value, and regional value? And how will we handle the creation of repeat customers and fans for the Company and local communities? Third, there is a need to increase the weight given to the creation of new value, in other words, to fields that do not depend on mobility. Up to this point, we have conducted business development in a manner that facilitates the demonstration of synergy effects, centered on the railway business. We believe that we had realized efficient management and a virtuous cycle, but due to the coronavirus pandemic, the foundation deteriorated. In sustainable corporate management and value creation, it will be necessary to achieve a certain level of increase in the share of business fields that do not depend on mobility.

In that regard, specifically, we will advance the shift to digital technologies. An important issue is how we will connect with individual customers. This is not a question of customers repeatedly utilizing the Company on account of flexible price-setting, etc. Rather, it involves getting customers to repeatedly utilize the entire Group by increasing connections with local communities, and leveraging those connections to establish lateral connections among businesses. Going forward, the Group would like to foster use at appropriate prices by providing a high level of value. To that end, we believe that a digital shift will be essential. It might be difficult to change something dramatically over a period of several years. However, we will take a long-term viewpoint of 20 years or 30 years into the future. Our ultimate aim will be demonstrated by how will we apply our resources for financial soundness, growth investment, coexistence with local communities, and city development in the next medium-term business plan.

Q8

Cost structure reforms are being advanced, and there are also other factors such as the Expo. Under the next medium-term management plan, we would like to see the Company aim for profits higher than those in the period before the coronavirus pandemic. We would like to hear that the Company is determined to do this.

A8

We take very seriously the stock dilution resulting from the capital increase, and the concerns of investors. Our number one task is to work to restore profits to the level in the period before the coronavirus pandemic as soon as possible.

In comparison with earnings in the period before the coronavirus pandemic, what is missing is inbound. Before the coronavirus pandemic, transportation revenues included inbound revenues of approximately ¥30.0 billion, and the early restoration of that is important. Potential demand is substantial, and if the coronavirus pandemic subsides, together with the

depreciation of the yen, we will likely see a recovery in inbound travel to Japan. On the other hand, an important issue will be the extent to which rising fuel costs, etc., can be absorbed through management efforts.

In any case, we must give shape to structural reform, city development, and digital strategy initiatives. For railway revenues, inbound, yield management, and tourism development will be important. Digital technologies are indispensable in yield management. We would like to be able to utilize digital technologies while also having flexibility in the use of fares.

Q9

In regard to TCFD, the Company newly disclosed its expectations based on quantitative analysis. Would it be accurate to say that measures to address the details of disclosures will be included in the next medium-term management plan?

A9

In addition to advancing disclosure, we also have to specifically reflect these measures in our management plans. With consideration for the global trend toward decarbonization, there are cost-push factors. For example, the introduction of a carbon tax is under consideration, and we have requested a framework that leverages the high level of environmental characteristics of railways. We are not thinking of a system under which there is simply an additional tax, as with the consumption tax. There is a need for those types of discussions. We believe that, in comparison with Europe, discussions regarding those types of policies are not active, and we would like to seek a more active approach. There are concerns about costs, but we would like to consider how to turn the environmental characteristics of railways into an advantage and what methods are available. In particular, it will be necessary to incorporate certain elements into the next medium-term management plan. One will be consideration of how costs will be held down. Another will be measures to take the initiative, such as the feasibility of leveraging modal shift as an opportunity and the effective use of the environmental superiority of railways as a marketing measure.

Q10

What is the objective of the organizational structure reforms? In other words, what is the Company aiming to achieve?

A10

The objective of these organizational structure reforms is to realize prompt, resolute decision-making and business execution on a Groupwide basis while shifting the monitoring function to the Board of Directors, which is the highest level organization, and strengthening the monitoring function, through the transition to a company with an audit and supervisory committee. Having clarified the scope of the responsibilities and authorities of each position, such as Directors and Executive Officers, business-execution-related authority will be delegated from the Board of Directors. In this way, we will advance prompt, resolute decision-making and business execution in each of the business areas and business departments to which authority has been delegated.

There are three points. First, we are a company for which railway operations are the mainstay business. In the past, we had a unified style for railway operations and management. However, with this strengthening of the in-house company system, we have shifted to a framework under which the railway business will independently consider both the safety and the profitability of railway operations. In this way, we will also be able to accelerate structural reforms in railway operations. The second point involves synergies. The strengths of railways can be extended to other businesses, and the reverse is also true. We

will arrange an easy-to-understand framework. On the horizontal axis will be clearly defined “city development” and “digital technologies.” On the vertical axis will be the in-house companies. In this way, we will display these strengths more and more. The third point is that it will be possible to enhance strategic-level portfolio and resource-allocation discussions by the Board of Directors. We would like people to understand that on a base of safety, which is the foundation of our management, we are advancing governance reforms to facilitate growth.

End