

Management's Discussion and Analysis of Consolidated Financial Conditions and Results of Operations for FY2023.3 (MD&A)

(Summary of business results in FY2023.3)

The business environment continued to be severe due to the impact of COVID-19. Against this backdrop, the JR Central Group (the "Group") placed the highest priority on ensuring safe and reliable transportation in the railroad operations, which is the core of our business, and worked to further enhance our services, improve employees' ability to perform their duties, and upgrade our facilities while working to prevent the spread of infection. In addition, we further strengthened our efforts to improve efficiency and cost reduction across the entirety of business execution, including capital investment, which we have been working tirelessly on, and made our utmost efforts to reduce costs without compromising safe and reliable transportation and the provision of transportation services. Moreover, we worked on the reinforcement of earning power 1) by promoting reform of business operations with the aim of reducing recurring costs by 80 billion yen on a non-consolidated basis over a period of 10 to 15 years by building an efficient business execution structure and 2) by endeavoring to increase revenue based on new ideas.

For the Tokaido Shinkansen, we flexibly adjusted the transportation capacity that we provide based on passenger volume by utilizing the "12 Nozomi Timetable" while addressing the prevention of infection spread, to allow our customers to enjoy our services with peace of mind. In addition, the Group introduced the new N700S rolling stock and pushed forward with the remodeling work on the existing N700A rolling stock to add some of the functions of the N700S to it, while continuing to promote large-scale renovation for the Tokaido Shinkansen and earthquake countermeasures, including measures to prevent derailment and deviation.

For the conventional lines, we flexibly increased the number of cars and trains for limited express trains, such as Shinano and Hida, as necessary based on demand, while addressing the prevention of infection spread so that our customers could enjoy our services with peace of mind. We also switched all regular Hida trains to the Series HC85, a new hybrid model for limited express trains, in March 2023. In addition, we systematically promoted earthquake countermeasures, such as reconstruction of the inspection and repair workshop building of the Nagoya rolling stock area and earthquake-proofing of elevated track columns, as well as rainfall countermeasures, rockfall preventive measures, and improvement of railroad-crossing security equipment.

As part of our sales measures, we extended the service area of our online reservation and ticketless boarding services ("Express Reservation" and "smartEX") for the Tokaido and Sanyo Shinkansen to the Kyushu Shinkansen in order to promote greater use of them. As part of efforts to increase the use of our services, in addition to "Zurashi Travel" which we had proposed as a new style of travel, whereby customers choose different times, places, means of transportation, and activities at the destination from the "standard" trip, we also sold other attractive travel products, etc., including a campaign for "Oshi Travel Update," which proposes updated "Oshi Travel," in which people pursue their own favorites, in cooperation with various business operators. We also launched "Iza Iza Nara," a new sightseeing campaign highlighting Nara. In addition, we worked to improve the business environment in the train and stations. For example, we introduced business booths inside N700S rolling stock on a trial basis in a private room format, to be used on an ad hoc basis for meetings and web conferences. We also installed semi-private business spaces in all Nozomi stations.

Regarding the Chuo Shinkansen project using the Superconducting Maglev System, we proceeded with land acquisition between Shinagawa and Nagoya, for which section we received approval for the construction implementation plan. In addition, construction work progressed steadily in various areas along the line. At Gifu Prefecture Station (tentative name) and Nagano Prefecture Station (tentative name), among other places, we started full-scale construction work. In the Nagano section of the Southern Alps Tunnel, excavation of the main tunnel was started. In the Kajigaya section and the Higashiyurigaoka section of Metropolitan Tunnel No. 1, where deep underground excavation by a shield machine is taking place, survey tunneling work was started to confirm the effectiveness of safety and security measures in the field. We will continue to focus on construction safety, environmental protection, and coordination with local communities, and we will vigorously proceed with various types of construction while thoroughly and carefully examining costs.

On the other hand, we have been unable to begin tunnel excavation in the Southern Alps Tunnel (Shizuoka Section) due to failure to gain the understanding of Shizuoka Prefecture and other stakeholders. Meanwhile, with regard to the impact on the water resources of the Oi River, we have been examining methods to return to the Oi River the same amount of water as the amount of spring water flowing out of the tunnel to outside Shizuoka Prefecture during a certain period of the construction as an exception, and have been providing explanation to Shizuoka Prefecture and other stakeholders since April 2022, based on the interim report on the Oi River water resource issues prepared in December 2021 by the Expert Conference on the Linear Chuo Shinkansen Shizuoka Section of the Construction Site of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). We have also been accepting comments and questions on the Oi River water resources since July 2022 in order to facilitate future initiatives and explanations to local residents. We have been replying to the questions individually, and published the main comments, questions, and replies in October 2022. Discussions on the issue of environmental preservation of the ecosystem, etc. of the Southern Alps have been taking place at the Expert Conference since June 2022. We will continue to work diligently to

gain the understanding and cooperation of the local communities.

Meanwhile, we worked to further improve the Superconducting Maglev System technology and to further reduce the costs of the construction, operation, and maintenance of commercial lines by performing running tests on the Yamanashi Maglev Line and verification tests at the Komaki Laboratory, on the premise that high-temperature superconducting magnets will be introduced to commercial lines. In order to raise expectations toward the opening of the Chuo Shinkansen, we offered a trial ride on an improved testing vehicle exclusively for students to allow them to experience the Superconducting Maglev System, in addition to similar trial rides that we have already been offering to general customers.

As for overseas high-speed railway project initiatives, we continued to work steadily on the High Speed Rail Project in the U.S. We also provided technical consulting for the Taiwan High Speed Rail Corporation. In addition, we promoted efforts to make the Japanese high-speed railway system an international standard.

Regarding businesses other than railways, we worked to increase revenues through the integrated operations of JR Central Towers and JR Gate Tower, which has celebrated the fifth anniversary of its opening. We also worked to strengthen our competitiveness and sales power by renovating station commercial facilities, such as First Avenue Tokyo Station, Asty Ichinomiya, and Asty Kyoto, and promoting the development of spaces under elevated tracks. We prepared systematically for the launch of “TOKAI STATION POINT,” a common points service available at the JR Central Group’s station commercial facilities, scheduled for October 2023.

As a result, the total transportation result (passenger kilometers) in the fiscal year ended March 2023 increased by 56.7% year on year to 50,183 million. Operating revenues increased by 49.7% year on year to 1,400.2 billion yen, ordinary income was 307.4 billion yen, and net income attributable to owners of the parent was 219.4 billion yen.

The above operating results by business segment are shown as follows.

Transportation

For the Tokaido Shinkansen, we flexibly adjusted the transportation capacity that we provide based on passenger volume by utilizing the “12 Nozomi Timetable” while addressing the prevention of infection spread, to allow our customers to enjoy our services with peace of mind. In addition, we have steadily proceeded with large-scale renovations while constantly reducing costs, with the aim of maintaining and improving the soundness of civil engineering structures. As for earthquake countermeasures, we worked on the prevention of derailment and deviation for all Tokaido Shinkansen lines, such as laying derailment prevention guards. We also took measures against flooding to protect railway facilities based on hazard maps, etc. In addition, we continued the deployment of N700S rolling stock, which has a space that can accommodate six wheelchairs, and operated a reservation system for certain wheelchair compatible seats through “Express Reservations” and “smartEX” on a trial basis. The Group also continued to introduce additional N700S rolling stock, which is a new model, while conducting enhancement work to add certain functions of the N700S to the existing N700A type. In addition, we endeavored to ensure safe and stable transportation and further enhance transportation services by starting the use of platform doors on platform No. 20 of Shin-Osaka Station, and completing the installation of platform doors in all Nozomi stations.

For the conventional lines, as for the Tokaido Shinkansen, we flexibly increased the number of cars and trains for limited express trains, such as Shinano and Hida, as necessary based on demand, while addressing the prevention of infection spread so that our customers could enjoy our services with peace of mind. In addition, we systematically promoted earthquake countermeasures, such as reconstruction of the inspection and repair workshop building of the Nagoya rolling stock area and earthquake-proofing of elevated track columns, as well as rainfall countermeasures, rockfall preventive measures, and improvement of railroad-crossing security equipment. Furthermore, we introduced additional Series 315 rolling stock, a new type of commuter train whose commercial operation started in March 2022. We also introduced additional Series HC85 rolling stock, a new hybrid model for limited express trains whose commercial operation started in July 2022 for Hida trains. As a result, all Hida trains were switched to the Series HC85 in March 2023. In addition, in January 2023, we started technological verification of platform safety confirmation by using cars that have installed car-side cameras. Regarding platform doors, we installed platform doors on the outbound platforms of Nagoya Station on the Tokaido Line, and made preparations for the introduction a platform door opening/closing system that utilizes QR codes. Regarding braille blocks with inside lines that indicate where platform edges are located, the installation was expanded to stations with more than 1,000 passengers per day, and the replacement of braille blocks is under way as part of our efforts to secure safe and reliable transportation and further enhance our transportation services.

As an initiative common to both Shinkansen and conventional lines, we carried out practical training, etc. to respond to various situations that are expected in the event of an abnormality, such as a natural disaster, or an unforeseen situation. Furthermore, as an earthquake countermeasure, we took measures to prevent the suspended ceilings of stations from falling down, and implemented seismic retrofitting work for storage sheds on station platforms.

As part of sales measures, we extended the service area of “Express Reservation” and “smartEX” to the Kyushu Shinkansen in order to promote greater use of them. In commemoration of the achievement of reaching 10 million members and registrants of “Express Reservation” and “smartEX,” we conducted various campaigns, such as a “Doctor Yellow” trial ride event, in appreciation of the patronage of our customers. We made steady preparations for the scheduled launch in fall 2023 of a new “EX-MaaS” service (tentative name) to enable customers to make reservations and payments seamlessly for their entire trip, including Shinkansen tickets, hotel rooms, sightseeing plans, etc. We have also enhanced the travel destination content of the “EX Travel Content Portal” site, which is accessible from “Express Reservation” and “smartEX” online pages, by providing links to various contents offered by hotels and other facilities along the line. In order to increase the use of our services going forward, we started sales of the “Chartered Car Package” whereby customers can charter one or more cars of a Tokaido Shinkansen train to hold an event of their own in the car(s). In addition, we distributed attractive travel products in collaboration with municipalities along the line and various business operators while advertising through the special websites and Twitter accounts “Zurashi Travel” and “Oshi Travel Update,” where we propose a new style of travel. We also launched “Iza Iza Nara,” a sightseeing campaign highlighting Nara, and conducted various campaigns utilizing the sightseeing resources of other tourist destinations, such as Kyoto, Tokyo, and Hida. Furthermore, we worked to improve the business environment in trains and stations. For example, we introduced business booths inside N700S rolling stock on a trial basis in a private room format, to be used on an ad hoc basis for meetings and web conferences. We also installed semi-private business spaces in all Nozomi stations. We also conducted a “Let’s Go Meet” campaign to encourage use for business travel by business users.

The total transportation result (passenger kilometers) in the fiscal year ended March 2023 increased by 68.5% year on year to 42,418 million for the Tokaido Shinkansen, and increased by 13.5% year on year to 7,765 million for conventional lines.

In the bus business, although the situation remains severe, our efforts were focused on securing profits by developing products in light of customer needs with top priority placed on safety.

As a result, operating revenues for the fiscal year ended March 2023 increased by 58.0% year on year to 1,134.0 billion yen, and operating income was 338.5 billion yen.

The operating results of our railway business, which accounts for the majority of the transportation business, are as follows:

Category	Unit	FY2022.3 (April 1, 2021 to March 31, 2022)			FY2023.3 (April 1, 2022 to March 31, 2023)				
		Shinkansen	Conventional lines	Total	Shinkansen	Conventional lines	Total		
Number of business days	days	365	365	365	365	365	365		
Operating kilometers	kilometers	552.6	1,418.2	1,970.8	552.6	1,418.2	1,970.8		
Rolling stock kilometers	thousand kilometers	911,762	221,292	1,133,054	970,018	227,590	1,197,608		
Passenger ridership	Commuter pass	thousand	10,289	231,319	239,899	11,275	236,132	245,535	
	Other	thousand	73,221	88,520	156,478	120,060	115,003	226,858	
	Total	thousand	83,511	319,839	396,377	131,335	351,135	472,393	
Passenger kilometers	million passenger kilometers	25,176	6,840	32,016	42,418	7,765	50,183		
Transportation revenues	Passenger fares	Commuter pass	million yen	11,790	29,581	41,372	12,909	30,183	43,092
		Other	million yen	578,055	37,815	615,870	973,264	53,621	1,026,885
		Total	million yen	589,846	67,396	657,242	986,173	83,805	1,069,978
	Parcel carriage	million yen	—	2	2	—	2	2	
	Total	million yen	589,846	67,398	657,244	986,173	83,807	1,069,980	
Railtrack's access charges	million yen	—	—	3,564	—	—	3,798		
Miscellaneous incomes of transportation	million yen	—	—	50,587	—	—	52,944		
Total revenue	million yen	—	—	711,396	—	—	1,126,724		
Transport efficiency	%	Seat utilization rate 33.4	Boarding efficiency 23.7	—	Seat utilization rate 52.9	Boarding efficiency 26.2	—		

Note: 1. The figures of Shinkansen and conventional lines in transportation revenues are categorized by passenger count. The total passenger ridership excludes overlapping passengers for Shinkansen and conventional lines.

2. Transport efficiency is calculated using the following formula.

$$\text{Seat utilization rate for Shinkansen} = \frac{\text{Passenger kilometers}}{\text{Available seat kilometers (train kilometers by composition} \times \text{number of seats)}} \times 100$$

$$\text{Boarding efficiency of conventional lines} = \frac{\text{Passenger kilometers}}{\text{Rolling stock kilometers} \times \text{average capacity}} \times 100$$

3. The composition rate of ticket sales by other major JR companies (including travel agencies of the relevant companies) out of transportation revenues is as follows:

Name of company	FY2022.3 (%)	FY2023.3 (%)
East Japan Railway Company	17.7	19.7
West Japan Railway Company	15.3	15.6

Merchandise and other

In the merchandise and other business, as part of efforts to strengthen our revenue generating capabilities, we are undertaking a major renovation of the luxury zone in JR Nagoya Takashimaya, and some of the stores there have already opened. We also opened a food section in AEON Mall Okazaki. In addition, we conducted sales activities that are designed to meet customer needs in Takashimaya Gate Tower Mall, which has celebrated the fifth anniversary of its opening. In order to enhance the lineup of our products offered through our online shopping website, JR Central Market, where a wide range of online stores offer popular products of stations and hotels and exclusive railway-related articles, we launched products commemorating the 30th anniversary of the start of operation of Nozomi and products made of “Shinkansen recycled aluminum,” which was extracted from retired Shinkansen rolling stock.

As a result, operating revenues for the fiscal year ended March 2023 increased by 35.1% year on year to 138.7 billion yen, and operating income was 8.3 billion yen.

Real estate

In the real estate business, we worked to strengthen our competitiveness and sales power through various measures, including the renovation of station commercial facilities, such as First Avenue Tokyo Station, Asty Ichinomiya, and Asty Kyoto, and the development of spaces under elevated tracks, in addition to various campaigns and events commemorating the fifth anniversary of opening of JR Gate Tower. In addition, we further expanded “EXPRESS WORK,” a workspace service provided mainly inside stations and buildings directly connected to stations.

As a result, operating revenues for the fiscal year ended March 2023 increased by 7.2% year on year to 77.3 billion yen, and operating income increased by 16.3% year on year to 17.3 billion yen.

Other

In the hotel business, we endeavored to provide high-quality services while preventing the spread of infection. In addition, we stimulated demand by, for example, offering attractive guest rooms in collaboration with various business operators.

In the travel business, we distributed attractive travel products bound for Kyoto, Nara, Tokyo, Hida, and other areas in coordination with the “Zurashi Travel” campaign, which we propose as a new style of travel. In addition, we also launched new sightseeing plans in “Oshi Travel Update” in cooperation with various business operators.

In the rolling stock manufacturing business, we endeavored to receive orders for and manufacture rolling stock and construction machinery.

As a result, operating revenues for the fiscal year ended March 2023 increased by 6.4% year on year to 249.4 billion yen, and operating income increased by 755.9% year on year to 10.0 billion yen.

(Analysis of financial position, operating results, and cash flows status)

The forward-looking statements in the text represent the Group's judgment as of the end of the consolidated fiscal year under review.

(1) Operating results

(i) Operating revenues

Operating revenues increased by 465.1 billion yen (49.7%) year on year to 1,400.2 billion yen.

In the transportation business, our transportation revenues increased by 412.7 billion yen (62.8%) year on year to 1,069.9 billion yen. As for the Tokaido Shinkansen, transportation revenues increased by 67.2% year on year to 986.1 billion yen due to a year-on-year increase of 68.5% in the transportation result (passenger kilometers). As for the conventional lines, transportation revenues increased by 24.3% year on year to 83.8 billion yen due to a year-on-year increase of 13.5% in the transportation result (passenger kilometers).

In businesses other than the transportation business, the merchandise and other business, the real estate business, and the other business recorded increases in revenues of 35.1%, 7.2%, and 6.4%, respectively, on a year-on-year basis. As a result, all business segments achieved revenue growth.

(ii) Operating expenses

Operating expenses increased by 92.3 billion yen (9.9%) year on year to 1,025.7 billion yen.

(iii) Operating income

Ordinary income increased by 372.7 billion yen to 374.5 billion yen.

(iv) Non-operating income and expenses

Non-operating income and expenses improved by 1.9 billion yen compared to the previous fiscal year.

(v) Ordinary income (loss)

Ordinary income totaled 307.4 billion yen, an improvement of 374.7 billion yen compared to an ordinary loss of 67.2 billion yen in the previous fiscal year.

(vi) Net income (loss) attributable to owners of the parent

As a result of adding or subtracting income taxes to/from the above result, net income attributable to owners of the parent was 219.4 billion yen, an improvement of 271.3 billion yen compared to a net loss attributable to owners of the parent of 51.9 billion yen in the previous fiscal year.

(2) Financial position

The balance of total assets as of the end of the fiscal year ended March 2023 increased by 63.8 billion yen from the end of the previous fiscal year to 9,514.4 billion yen. The balance of assets by business segment is as follows: in the transportation business, it decreased by 154.5 billion yen from the end of the previous fiscal year to 8,559.2 billion yen; in the merchandise and other business, it increased by 18.7 billion yen from the end of the previous fiscal year to 136.3 billion yen; in the real estate business, it increased by 15.1 billion yen from the end of the previous fiscal year to 366.5 billion yen; and in the other business, it increased by 30.7 billion yen from the end of the previous fiscal year to 420.4 billion yen.

The balance of total liabilities as of the end of the fiscal year ended March 2023 decreased by 133.9 billion yen from the end of the previous fiscal year to 5,707.2 billion yen. The balance of long-term debt as of the end of the fiscal year ended March 2023 stood at 4,949.8 billion yen. Of this amount, the balance of long-term debt, excluding long-term debt for the construction of the Chuo Shinkansen, stood at 1,949.8 billion yen, an increase of 8.1 billion yen compared to the end of the previous fiscal year.

The balance of net assets at the end of the fiscal year ended March 2023 increased by 197.8 billion yen from the end of the previous fiscal year to 3,807.1 billion yen, pushing up the equity ratio to 39.5% as of the end of the fiscal year ended March 2023, compared to 37.7% at the end of the previous fiscal year.

(3) Source of capital and liquidity of funds

(i) Status of cash flows

Cash and cash equivalents (hereinafter, "funds") as of the end of the fiscal year ended March 2023 increased by 91.0 billion yen from a year earlier to 710.5 billion yen, and we judge that the liquidity of funds is secured.

Cash flows from operating activities were positive 486.7 billion yen. Net cash provided by operating activities increased by 414.9 billion yen, mainly due to an increase in our transportation revenues compared to an increase of 71.7 billion yen in the previous fiscal year.

Cash flows from investing activities were negative 175.0 billion yen. Net cash provided by investing activities decreased by 21.9 billion yen, mainly due to a decrease in proceeds from redemption of investment compared to a decrease of 153.0

billion yen in the previous fiscal year.

Cash flows from financing activities were negative 220.6 billion yen. Net cash provided by financing activities decreased by 201.4 billion yen, mainly due to an increase in redemption of short-term bonds compared to a decrease of 19.1 billion yen in the previous fiscal year.

(ii) Significant capital expenditure plans and the source of the funds

As stated in “Item 3 Equipment and Facilities 3 Plan for the construction, retirement, etc., of equipment and facilities

(1) Construction, etc. of significant equipment and facilities.”

(iii) Shareholder returns

As stated in “Item 4 Company Information 3 Dividend policy.”

(iv) Fund procurement

Regarding fund procurement, it is our basic principle to secure the necessary funds on a stable, agile basis at a low interest rate, taking into consideration capital investment plans for the Chuo Shinkansen and debt redemption plans, in light of economic conditions and financial market trends.

During the fiscal year ended March 2023, we issued 18 billion yen in domestic straight bonds (green bonds) and raised 84.4 billion yen through long-term debts in order to fund the redemption of debt, capital investment, etc. We also issued 200.0 billion yen in short-term bonds in preparation for the continued decline in revenues due to the impact of COVID-19.

Regarding the construction of the Chuo Shinkansen, we have secured the funds necessary for the time being through long-term loans using the fiscal investment and loan program.

For smooth fund procurement, we received an A2 rating from Moody’s Japan K.K., an AA rating from Rating and Investment Information, Inc., an A+ rating from S&P Global Ratings Japan Inc., and an AAA rating from Japan Credit Rating Agency, Ltd.

Furthermore, we had established a commitment line of 100 billion yen as of the end of the fiscal year under review for the purpose of securing short-term liquidity.

(4) Significant accounting estimates and the assumptions used for such estimates

The Company’s consolidated financial statements are prepared in accordance with the generally accepted accounting principles in Japan. In preparing these consolidated financial statements, our estimates and judgments were made based on various factors that we deem reasonable in the light of past results and situations. However, the actual results may differ from these estimates due to uncertainties inherent to the estimates.

Of the estimates in the Group, the discount rate and long-term expected rate of return on investments and other assumptions for liability for retirement benefits and retirement benefit expenses are indicated in “Section 5 FINANCIAL RESULTS, 1. Consolidated financial statements, etc., Notes (Retirement benefits accounting).” It should be noted that in the event where any changes occur in the discount rate and long-term expected rate of return on investments, there will be an increase or a decrease in liability for retirement benefits and retirement benefit expenses due to the changes in retirement benefit liabilities.

As for deferred tax assets, please refer to “Section 5 FINANCIAL RESULTS, 1. Consolidated financial statements, etc., Notes (Significant Accounting Estimates)” for the relevant information.