Message from the CFO

Update to the Medium-Term Management Plan

In April 2024, we updated the Medium-Term Management Plan 2025. Among the key performance indicators (KPIs) for fiscal 2026 is an EBITDA (which reflects cash flow generation capacity) of 370 billion yen, a target that would exceed pre-pandemic levels. Our ROE target has been revised about 10% upwards. By tapping cash from our robust recovery from the pandemic to improve safety, growth, and our ability to adapt to and create change, which together comprise the future foundation of our business, the plan seeks to foster the creation of economic and social value along with a virtuous cycle of value creation.

Portfolio strategy and resource allocation

Our portfolio strategy for achieving growth plays out around four axes. The first is our mobility services business, which centers on our core railway business. The most important basis for the entire Group is railway safety and the customer trust that comes from it. The update to the plan adds 100 billion yen in safety-focused maintenance and replacement investments over five years. This doesn't mean we've allocated funds to safety investments because profits have surged. Rather, it means we've revised safety investments themselves based on a determination that we need to accelerate our approach to earthquake resilience and labor shortages based on recent environmental changes and our view of the future. In addition to utilizing sensors, AI, and robots to boost labor productivity and pursuing partnerships with other rail operators, for example to develop self-driving capability for Shinkansen trains and study railcar parts sharing with a view towards ensuring the sustainability of railways, we will participate in discussions about how to realize optimal regional transport systems, among other initiatives. In addition, we're undertaking a variety of measures to increase profits, including by capturing significant growth through inbound tourism, launching Hokuriku Shinkansen service to Tsuruga, implementing pricing strategies based on data marketing, and maximizing the effects of events like Expo 2025. To that end, we will allocate investments to railcars, systems, and other necessities.

The second axis, real estate and city development, lies at the heart of the life design field, which generated stable profits even during the pandemic. The update adds 110 billion yen in growth investments centering on this field over five years. We will pursue purchasing and development in districts surrounding stations and other areas as we work to connect people, communities, and society and pursue city planning that stirs hearts while increasing group synergies from the standpoint of marketing. July 2024 saw an expansion at Osaka Station City with the opening of JP Tower, The Osaka Station Hotel, and Inogate Osaka on the west side of Osaka Station. Through content that stirs the heart and walkable city planning, we're working to maximize the appeal of the city center, including in the adjacent phase 2 area of Umekita. To that end we will make a total investment of 100 billion yen, which we expect to yield an EBITDA of 9 billion yen several years after opening. Going forward, there are other city development projects in the pipeline, including Umekita Green Place and Minamoa Hiroshima Station Building, which are scheduled to open in spring 2025; other sites in Mukomachi and Nishi-Akashi; and a development in Sannomiya, which we expect to open in fiscal 2030. Beyond station buildings, we will utilize outside investments, for example by means of funds, private-placement REITs, and other vehicles, as we periodically review all properties in our portfolio and switch them out in an effort to diversify risk and balance profitability. Although real estate and city development projects are characterized by lengthy investments and time horizons before benefits can be realized, we will work to increase stable profits in such projects, which comprise the heart of the life design field by pursuing increased value, including through outside investments, and strengthening associated capabilities.

The third axis is digital strategy. Group synergies around WESTER ID, the Group's shared ID program, are steadily growing. We already have 9 million WESTER members (as of September 30, 2024). We will leverage Wesmo!, a code-based payment service we plan to launch in spring 2025, to expand the WESTER experience rooted in real-world service and touch point strengths, including an enormous customer base centered on our railway business and underutilized assets. We will expand the WESTER economic sphere beyond the Group and boost its appeal by introducing a payment service that attracts a broader range of customers and businesses as our third payment service, after ICOCA and J-West Card, which benefit from key strengths. In addition, we will boost loyalty within that economic sphere while understanding individual customers and utilizing data marketing that draws them in so that we can increase overall partner revenue within the sphere and increase profit from our payment business. For the time being there will be the initial cost of building the system and point expenses, but we will grow this business into a next-stage driver of growth second only to real estate.

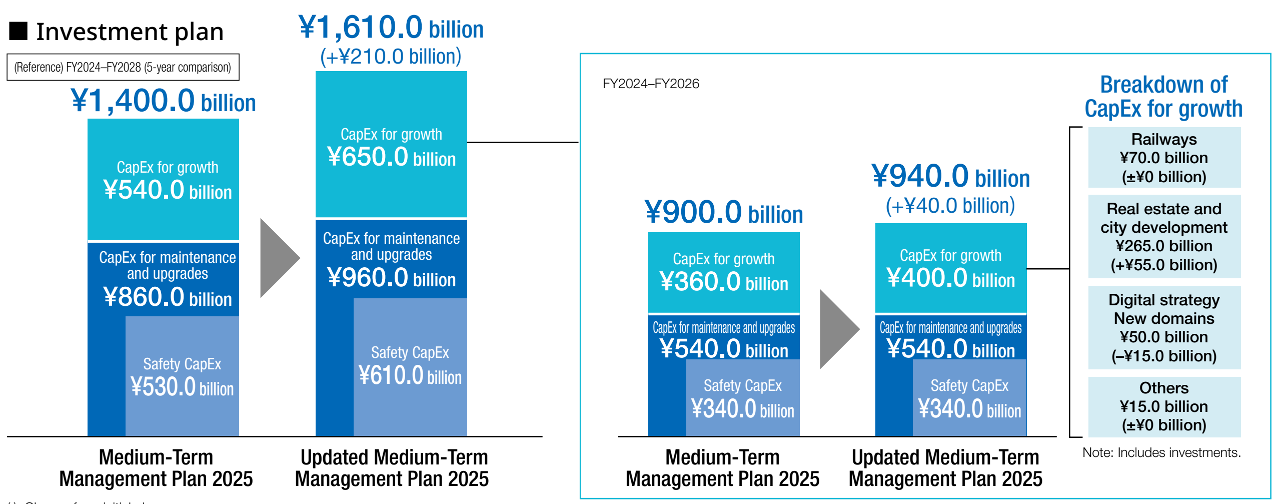
The fourth axis, which is focused on the next stage, is a new business domain that includes JCLaaS (our comprehensive infrastructure management business) and other offerings. We're currently working to give shape to JCLaaS, which was selected this July to participate in the private-sector proposal-based government and private sector partnership modeling program

■ Financial targets (financial KPIs)

		FY2024 (results)	FY2026 Medium-Term Management Plan financial targets*1*2	FY2028 Target level (reference)*2
Ability to generate profits	Consolidated operating income	¥179.7 billion	(¥150.0 billion yen) ¥185.0 billion	(¥185.0 billion yen) ¥195.0 billion
	EBITDA	¥343.0 billion	(¥340.0 billion) ¥370.0 billion	(¥380.0 billion) ¥400.0 billion
	(Reference) Transportation revenues	¥840.5 billion	(¥860.0 billion) ¥905.0 billion	(¥870.0 billion) ¥915.0 billion
	Cost structure reform	–¥36.0 billion	–¥40.0 billion	–¥50.0 billion
Management efficiency	Consolidated ROA	4.8 %	(Approx. 4%) Approx. 5 %	(Approx. 5%) Approx. 5 %
	Consolidated ROE	9.2 %	(Approx. 8%) Approx. 10 %	(Approx. 9%) Approx. 10 %
Financial discipline	Net interest-bearing debt/EBITDA	3.9x	(5x or less) Approx. 4x	(4x or less) 4x or less
Business composition	Ratio of life design field to operating income	25 %	(Approx. 25%) Approx. 25 %	(Approx. 35%) Approx. 35 %

*1 The plan does not include increased transport revenue associated with Expo 2025.
*2 Figures in parentheses indicate targets under Medium-Term Management Plan 2025.

■ Investment plan



( ): Change from initial plan

Message from the CFO

under the Ministry of Land, Infrastructure, Transport and Tourism, and we're studying new approaches to bridge management with the city of Hiroshima. Our Virtual Osaka Station in the metaverse has attracted more than 20 million visitors and is becoming one of Japan's leading metaverse portals. We're also expanding our solutions business, which provides a range of solutions that have grown out of our railway and data marketing operations for use in solving issues faced by other businesses. We will plant a variety of seeds and use them to foster monetization and human resources development through a trial-and-error approach to investment allocation while utilizing methods such as phase-gate project management. We're refining our schedule to invest and spend 50 billion yen over three years on third- and fourth-axis projects, and the update leaves our five-year 130 billion yen budget unchanged as we look to create a robust foundation for future profit.

Turning to our approach for revamping our business portfolio, we're regularly reviewing and studying our options from the standpoint of considerations like the percentage of life design businesses, including with consideration of links to mobility and risk diversification as well as businesses involving synergies with other businesses and their effects, the growth potential of individual businesses, and contribution to increasing corporate value through invested capital and capital efficiency (the ROIC-WACC spread), all while treating our railway business as a core business. We also recognize that enhancing the level of disclosure regarding the structure of our portfolio is a matter of high expectation in the capital markets, and we are actively working to make improvements in this area.

Improving our ability to adapt to and create change through human capital management

Under Our Purpose, Long-Term Vision 2032, and the Medium-Term Management Plan 2025 update, initiatives dedicated to improving our ability to adapt to and create change underpin value creation. Our ability to adapt to and create change are made possible by human resources (human capital), mechanisms that encourage challenge-taking and collaboration, and the organizational culture that underpins them. The update to the plan envisions allocating major additional investments to these intangible assets. Our human resources strategy is linked to our business strategy and conceived to foster the formation of a human resources portfolio that complements our future business portfolio. To that end, we need both specialized human resources and innovation-minded human resources in all fields, including railways, and we're hiring highly specialized human resources with extensive experience. The update allocates investments in an effort to secure surplus human capital to pursue challenges, improve diversity, fund experiments to enable technological development and creativity, and underwrite collaboration with a variety of partners, including startups.

At the same time, initiatives from the dual standpoints of the company and employees are also important. Employees grow when they think for themselves, embrace challenges, and collaborate with diverse teams to generate results. When the company provides support with programs, mechanisms, and environment-building, employee motivation also increases. In addition to education and training focusing on self-development, the update to the plan allocates resources for deployment of groupware and generative AI to reform workstyles, improvements to the communications environment, and improvements to the office environment. By supporting the flat sharing of information and interactive collaboration with offices and tools, we will provide workspaces that are conducive to broad-based employee growth.

■ Cash allocation

Fundraising	Uses of cash	Medium-Term Management Plan 2025	Additional resources allocated by the update to the plan
Operating cash flow; Bonds/loans payable, other	Safety CapEx	Priority ranking 1 • Safety remains the most important strategy. Steadily implement safety investments	• Boost competitiveness by allocating additional investments based on improvements in safety, which comprise the foundation for the Group's businesses, and the status of efforts to secure labor Safety-focused maintenance and replacement investments About ¥100 billion
	CapEx for growth	Priority ranking 2-1 • Optimize business portfolio by investing resources in growth areas to revitalize the mobility services field and expand the life design field	• Carry out growth measures that help increase corporate value • Invest additional resources on a priority basis in measures related to optimizing the business portfolio by expanding the life design field About ¥110 billion
	Improving our ability to adapt to and create change	• Secure human resources and diversity to pursue challenges; fund experiments to enable technological development and creativity; collaborate with a variety of partners; raise motivation through education, training, and improvements to the work environment; etc. (including allocations to capital investments)	
	Shareholder returns	Priority ranking 2-2 • Pay stable dividends with a dividend payout ratio of 35% or more • Net interest-bearing debt/EBITDA ratio of 5x or less (FY2026) • Sustainably improve corporate value and implement capital policies that seize opportunities	• Buy back shares to lower cost of capital and facilitate a recovery in EPS • Control debt with the goal of achieving a net interest-bearing debt/EBITDA ratio of 4 during FY2028 About ¥100 billion (anticipated)

Financial strategy and cost of capital controls

The update to the plan includes share buybacks worth a total of 100 billion yen (anticipated), including 50 billion yen during fiscal 2025 and another 50 billion yen (anticipated) during fiscal 2026 and fiscal 2027 based on progress towards achieving the plan's goals, with all buybacks to be informed by the results of dialogue with shareholders and investors following the public offering. These decisions are based on (1) the goal of returning EPS to pre-pandemic levels and, as described in last year's Integrated Report, (2) an effort to realize cost of capital controls while securing an appropriate level of financial soundness for an infrastructure company (defined by the plan as net interest-bearing debt/EBITDA ratio of 4.0). As a result, the update to the plan envisions a recovery in ROE to about 10% and EPS of greater than 240 yen in fiscal 2026.

Although the company calculates the cost of equity as about 6% based on CAPM and the price-earnings ratio, we recognize that the figure, which has risen above 7% at present as a result of a higher risk premium for the railway business due to the pandemic and inflation against the backdrop of ongoing dialogue with shareholders and investors, is weighing on the stock price. The company wishes to see the government revamp the fare structure to better accommodate inflation so that it can boost the continuity of its railway business by achieving a virtuous cycle of growth and wage increases. In addition, we will pursue structural reforms in the railway business and rebuild our portfolio to give greater weight to the life design field and increase accountability. Through these efforts, we will work to lower the cost of shareholder equity.

Our approach to keeping WACC (weighted average cost of capital) between 3% and 4% over the medium and long term remains unchanged. The Board of Directors regularly discusses what it means to have a higher level of financial soundness and an optimal capital structure based on medium- and long-term changes in the portfolio while continuing dialogue with capital markets. We will review our approach as necessary.

We will work to improve EPS and ROE through both our portfolio strategy and cost of capital controls.

Message to shareholders

The cycle embodied by our value creation model, which creates both economic and social value, has just begun. We will continue to work to improve value for various stakeholders.

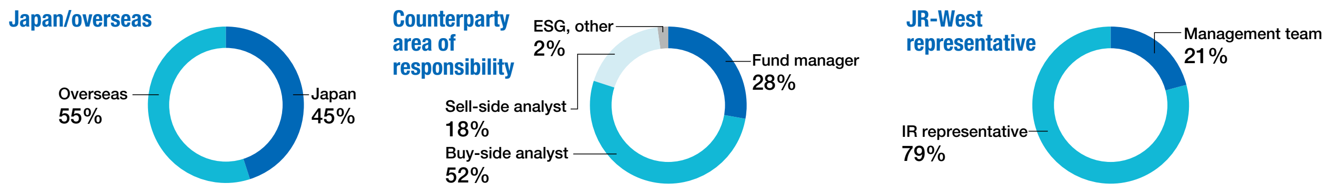
With regard to returning profits to shareholders, we've committed to a dividend payout ratio of at least 35%. We will work to increase shareholder value per share by improving EPS and ROE through previously announced initiatives.

We will also deepen the commitment of management to dialogue with shareholders and investors, myself included. We plan to implement a continuous cycle so that we can bring this dialogue, including critical views, to bear on the future management of the company.

Going forward, the Group will do its utmost to realize Our Purpose, the Long-Term Vision, and the Medium-Term Management Plan 2025.

■ Dialogue with shareholders and investors (April 1, 2023 to March 31, 2024)

Overview of shareholder and investor dialogue (about 220 opportunities)



Major IR events and participants

Date	IR event	Description	Principal briefer
May	Financial results briefing (FY2023 full-year)	Announcement of results for FY2023, Medium-Term Management Plan, and Long-Term Vision	President
Aug., Jan.	Financial results briefing (1Q/3Q FY2024)	1Q/3Q FY2024 results	IR representative (manager, Corporate Strategy Division)
Nov.	Financial results briefing (2Q FY2024)	2Q FY2024 results	Vice president
May	Small meetings	Strategic dialogue between analysts, institutional investors, and the president	President

Feedback to executive management

Description	Frequency	Feedback sent to	Reporting method
Summary of dialogue	2Q, end of year	Board of Directors	Consideration by the Board of Directors
Summary of analyst reports	Quarterly	President, CFO, others	Direct or by email, etc.
Suggestions during dialogue	As needed	CFO, related departments, others	Direct or by email, etc.

We will add opportunities for dialogue between shareholders and executive management (including financial results briefings, individual meetings, and IR events) during FY2025 and beyond.