

(Translation)

May 31, 2021

West Japan Railway Company

May 2021 Small Meeting (Web), Summary of Questions and Answers

1. Overview

(1) Date May 31, 2021 (Monday)

(2) Participants President, Representative Director, and Executive Officer
Kazuaki Hasegawa

Director and Senior Managing Executive Officer; Senior General
Manager, Corporate Planning Headquarters
Shoji Kurasaka

Executive Officer; Deputy Senior General Manager, Corporate Planning
Headquarters
Eiji Tsubone

General Manager, Corporate Planning Headquarters
Hiroo Oda

(3) Content Questions and answers

2. Questions and answers (summary)

Q

The Company is targeting a return to profitability in FY2022.3, but the declaration of a state of emergency has resulted in a challenging start to the fiscal year. Would you discuss the Company's enthusiasm for the year ahead?

A

This year, we will strive to implement a range of initiatives and to achieve a return to profitability. However, speaking frankly, the current conditions are more challenging than those envisioned in our plans. We had expected to make steps toward recovery after the state of emergency was lifted in May. However, we expect the challenging circumstances to continue for the time being due to the extension of the state of emergency to late June. We will continue to closely monitor the circumstances after the state of emergency is lifted, looking at the extent to which momentum will build through July and what type of recovery will be seen from the summer. If the revenue situation is challenging, then one could say that further cost reductions will be required. However, in that event, there would be limits to how much more we could reduce costs. Of course, we will do our utmost, but I believe that it will be difficult to implement additional cost reductions, above the initial forecast, to the extent that was seen in the previous fiscal year.

Q

Due to the reevaluation of methods of depreciation, depreciation will decline in FY2022.3. Therefore, will there be a further reduction in the forecast of ¥785.0 billion for non-consolidated operating expenses in FY2023.3?

A

In the recently announced revision of the medium-term management plan, the forecast for non-consolidated operating expenses in FY2023.3 is ¥785.0 billion. As you mentioned, the method of depreciation for Shinkansen rolling stock has been reevaluated, and theoretically, the resulting reduction will be about ¥10.0 billion. On the other hand, to a considerable extent, we have been implementing urgent cost reductions since the time of the revision of the medium-term management plan. With safe, secure transportation as our priority, there are limits to the continued implementation of urgent reductions. Also, the more that we implement measures involving timing adjustments, the greater the burden that we will face in future years. Accordingly, we cannot postpone things indefinitely. If there is a recovery in management conditions, then we would also like to reward our employees for their hard work. Consequently, at this point, we are not changing this forecast.

Q

Please discuss the enhancement of coexistence with local communities, as mentioned in the revision of the medium-term management plan. Also, is this related to the issue of the local lines?

A

The enhancement of coexistence with local communities also involves measures linked to expanding revenues and securing profits. We will do our best to implement these measures going forward. Increasing revenues involves promoting the use of the Shinkansen as well as the use of various businesses. In urban development, we will aggressively step up our initiatives. We think that, if local communities are invigorated and exchange among regions is promoted, then there will be a favorable effect on our railway business as well as our hotels, in-station businesses, etc.

Rather than working for the benefit of the Company alone, we want to follow a path that is a Win-Win and also benefits local communities, municipal governments, and businesses and other organizations. The coronavirus crisis is leading to diversification of working styles and lifestyles. New value is being discovered, and region areas are the focus of growing attention. To accelerate these trends, there are limits to what the Company can do by itself. Accordingly, in cooperation with other companies, we will strive to advance initiatives, commercialize services, and promote the Shinkansen and mid to long distance travel. It will be difficult to capture new demand simply by offering high-quality services at reasonable prices, as with the transportation measures to date. We will work to foster new flows of people, and from this perspective as well, to continue to enhance coexistence with local communities.

Also, within the overall railway network, local lines have been supported internally, that is, through the use of the Shinkansen and Kansai Urban Area conventional lines. However, considering the current circumstances and the usage situation in the post-coronavirus period, we can no longer simply consider the network as a whole, and we believe that we will need to actively address this situation. We will need to energetically raise issues with local communities about whether railway transportation services are appropriate for the community, including the best form of transportation for the community going forward. Achieving more-efficient, optimal transportation services is an issue that extends beyond the Company itself. It will also be necessary for members of local communities themselves to more actively take the initiative in regard to regional transportation systems. We will advance dialog in a way that fosters a sense of mutual empathy and a spirit of working together. We are committed to working together to find solutions while steadily advancing dialog.

Q

I would like to ask about growth opportunities, such as the Umekita underground station, the Hokuriku Shinkansen extension, and the Osaka/Kansai Expo, and about how those opportunities will contribute to earnings.

A

We will focus our management resources on future growth opportunities and topics, and strive to leverage them as engines of growth for the entire Group and the region. Lifestyles and values are changing due to the coronavirus crisis, and we think that even with domestic travel, there will be a shift from the previous short-term style of travel, such as one-night, two-day trips, to a more European/U.S. style of travel, such as long-term stays and excursions. The western Japan area has long had abundant tourism resources, such as in Kansai, Hokuriku, Sanin, and Setouchi. Travel demand is expected to recover when the coronavirus issue is resolved, but for the time being overseas travel may be limited. Accordingly, we expect to see a trend toward domestic travel and the rediscovery of tourism resources in Japan. Though the recovery of inbound will take time, it seems likely that there will be gradual recovery, and we think that conditions are likely to either return to or exceed the level before coronavirus. We are preparing for the opening of the Umekita underground station in spring 2023, and in conjunction with this we are advancing the redevelopment of the area surrounding Osaka Station. With the growing appeal of Kansai, centered on Osaka, the opening of a new facility by Universal Studios Japan, and other factors, the Kansai region will likely draw attention as an urban tourist destination. In addition, redevelopment initiatives are moving ahead in core regional cities, such as Hiroshima and Okayama. The invigoration of core cities will also lead to the promotion of flows of people among regions. There are few megacities in the western Japan area, but there are a large number of core regional cities that have extremely high potential. Going forward, we will work hard to leverage this potential.

Q

Has the coronavirus situation resulted in the discovery of new demand? With railway usage not expected to return to the level before coronavirus, how will the Company supplement revenues?

A

In the railway business, the need for seating on commuter trains is increasing. We have started a fee-based seat service on special rapid service trains and are providing the service on limited express trains during commuting hours. Services that facilitate social distancing and offer passengers assurance that they can sit are becoming popular.

Going forward, we will continue to expand initiatives to facilitate the maintenance of revenues, even if the number of uses declines, by providing better service aligned with needs. In tourism, for example, we are advancing glamping in order to address outdoor demand, which has increased due to the coronavirus crisis. In addition, we are working together with municipal governments and other companies to implement initiatives, such as for Life/Workation Subscription and migration to regional communities. These initiatives have been well received. In regard to the latter, for people who live in the suburbs of the Kansai metropolitan area and commute to Osaka or another urban area several times a month, we are conducting verification testing, with residences provided by the municipalities and discount railway tickets from the Company. In addition, new working styles are becoming established, and in this setting we are working together with JR East to build workplace networks. The roll-out of services for companies, under which corporate contracts are concluded with companies and those companies provide services to their own employees, seems to be leading to further promotion of usage. We are strengthening corporate sales, and we will investigate the needs of companies and consider if we can develop products to meet those needs.

Q

I would like to ask about the Company's approach to the fare policy.

A

Railway fares and Shinkansen express train charges are set through the price-cap method under the total-cost method. Raising fares requires that revenues, under the total cost method over the subsequent three years, are expected to be lower than total costs. For the Company, we consider raising the fare base to be the last resort, and we are not considering this type of fundamental fare revision. First, we will implement measures where we can leverage self-help, such as cost reductions and creation of new demand. Moving forward, there might be certain situations in which we will need to raise fares and charges, but even in those cases, for example, we will be able to implement them within the existing rules, such as additional seasonal charges or revision of planned discount tickets. Accordingly, we will consider these measures while focusing on the effects.

Q

In regard to competitiveness in the hotel and travel businesses, what is the outlook for these businesses after the implementation of structural reforms?

A

In regard to disclosure, the hotel business is divided into the other businesses segment and the retail business segment. The business is divided in this way due to the circumstances regarding its establishment. Considering differences in price ranges, customers, and hotel formats, we believe that, at this point, it would actually be difficult to manage them under the same system, and that it is better for each area to aim for the optimal results for its circumstances. Of course, we are confirming the situation from a Companywide resource allocation perspective.

Circumstances are currently challenging in the hotel business, but there is no change to the competitive advantage of locations near stations. Up to this point, our occupancy rates have been several points better than those of nearby hotels. In the future, we will strive to increase prices through the provision of higher quality services. In addition, we are advancing reforms to increase profitability, including through low-cost operations. We believe that those measures will produce results, and if domestic and inbound demand returns, we will be able to generate profits. In the travel agency business, we need to change our operations. We will need to take aggressive steps to close stores and then to convert agency sales centered on stores into online sales. We will also substantially reduce the workforce. On the other hand, we will leverage communications capabilities to address the needs of municipal governments and corporations, and work to newly expand the solutions business outside of the scope of travel agency operations. For example, we have received orders for administration of government related projects, such as vaccine-related matters and various executive office related items. We will advance operations in this area in the future. We will take steps to change the content and strengthen our operations.

Q

From the perspective of a railway operator, hasn't the real estate market changed significantly from the period before coronavirus?

A

Our real estate business started with the utilization of the assets that we originally held. As we acquired know-how, we steadily expanded the business to in-station operations, facilities near stations, and development outside stations. We are confident that we can steadily expand the real estate business, but, as you stated, the market is changing. In residential real estate, the circumstances are favorable, but in offices, the diversification of working styles is starting to have a small effect on the market overall. In residences as well, there are changes in the services provided and in the value wanted, such as the enhancement of the teleworking environment. Going forward, we will advance the real estate business while closely monitoring these changes and focusing on asset efficiency.

Q

In the development of the area west of Osaka Station, with a target of successive opening from 2024, what types of facilities will be built, and what kind of area value will be created?

A

The Company is advancing measures in preparation for moving the Tokaido Branch Line underground and for the opening of the new station in Umekita. In addition, progress is also being made in the development of the Umekita area through joint ventures among other companies as well as through joint operations between the Company and Japan Post, etc. In these ways, from 2024 the entire area will change significantly, and there will also be the Osaka/Kansai Expo in 2025. We expect the Kansai region to be a focus of attention. Looking at offices, there might be some concern about excess supply.

However, the location around Osaka Station is superior, and there are a large number of old properties in Osaka. Even though other companies have a supply of large-scale buildings, there is strong demand for relocation, and considering the advantages of the Umekita area, we think that inquiries will be strong. Even under the current conditions, the office vacancy rate in the Osaka area has not increased to the level in the Tokyo area. Up to this point, the main style has been the renting of a large floor to a single tenant. However, going forward we will work to meet new demand for flexible styles that facilitate layout changes and offer enhanced communication spaces. We are also considering such measures as the establishment of set plans under which customers will have center offices at the new Osaka Station building and shared offices and multiple base offices at other locations along railway lines.

Q

What types of assets will be included in the Company's asset liquidation and replacement initiatives? Also, would you discuss the purposes of asset liquidation?

A

We recently established a private real estate fund, and we are aiming for an asset scale of approximately ¥30.0 billion in several years. We will advance real estate liquidation initiatives, with consideration for REIT formation. In regard to the purposes, for the time being, the purposes include securing cash and profits. However, to further strengthen the real estate business as one of our business pillars, another important purpose will be building a framework for the expansion of earnings while utilizing outside capital.

Q

To maximize the earnings obtained through the digital strategy, what businesses and functions will need to be introduced?

A

For the digital strategy, targeting earnings, we think that an important point will be how to implement a one-package approach to the railway and non-railway businesses. For example, our shopping center business point members are not necessarily heavy users of railway services, and the frequent users of our railway services do not necessarily visit our shopping centers. However, if customers can use their points throughout the Group, we will be able to leverage the strengths resulting from being a Company that offers means of transportation. For example, one possible scenario is as follows. If passengers can accumulate points through shopping and then use those points to take the Shinkansen from Osaka to Kyushu, then Shinkansen users will include people who have not used the Shinkansen very much up to this point.

Those customers will draw other customers, and the number of users will expand further. The market will expand, with non-railway businesses encouraging customers to use railways, and vice-versa. To address the issue of how we will analyze and utilize the ICOCA member data that we currently hold, we are strengthening our data analytics capabilities, including human resources development. From that perspective, we increased our investment in GiXo Ltd. through Group companies, and we announced that we would expand our collaboration. In addition, from the perspective of service packages, collaboration with other JR companies will, of course, be important. We have announced the start of EX-MaaS, on which we collaborated with JR Central. In addition, collaboration with other railways and with municipal governments, which are working to attract tourists, will also be indispensable. Going forward, we will further strengthen collaboration with other companies, etc., and work to enhance appeal from the customer viewpoint.

Q

What level of capital expenditure is the Company considering under the next medium-term management plan? Also, how will the Company approach the reevaluation of its business portfolio and assets?

A

We will need to implement restructuring initiatives, including for the business portfolio. An important issue for the Company will be how to advance our railway business, the core of our operations, into the future, and we are considering how we should invest. As we stated when we announced the revision of the medium-term management plan, we are aiming for a D/E ratio of approximately 1 time in FY2028.3, and we need to achieve a recovery in our financial foundation. In addition to safety investment, we will also need to implement growth investment. With that balance, we are aiming to achieve the FY2028.3 target. However, achieving a D/E ratio of approximately 1 time in FY2028.3 will require considerable effort. We will need to increase operating cash flow, and in addition we must enhance investment efficiency. Accordingly, during the next medium-term management plan, we will likely have to make a reduction in comparison with the level of ¥1,250.0 billion under the current medium-term management plan. On that basis, we will achieve a balance between safety investment and growth investment. In any event, we will need to achieve a recovery in our financial foundation. To acquire the resources needed for that, it

will be important to restore operating cash flow through structural reform, etc. In addition, we will dispose of inefficient assets, sell assets to funds as was done in FY2021.3, etc. While securing short-term profits, we will make preparations for the real estate business, which has higher asset efficiency.

Core regional cities are being reevaluated, and decentralization is the focus of attention. This involves more than links to Tokyo and Osaka, which have previously drawn attention. We believe that links among regional cities will become increasingly important, and the Company will take steps in those areas. We will also invest to advance digital transformation, such as one-to-one marketing and maintenance system change initiatives that utilize data. In addition, we will step up environment-related investment.

Q

Would you discuss how the Company will increase profitability in the railway business? Also, will you disclose a target for that increased profitability?

A

The railway business consists of a deep framework that requires large amounts of equipment and human resources. Accordingly, while utilizing DX, we will advance structural reforms, such as productivity enhancement and working-style reform, and manage the railway business in a sustainable manner. On that basis, we will address those areas with high fixed costs and weak ability to adapt to change. We believe that this approach will be important. Specifically, an important issue will be the extent to which we can lower the break-even point in the railway business. We must lower the fixed cost ratio and transition to a framework that facilitates the provision of transportation services with a higher share of variable costs. Shifting toward variable costs covers a wide range of meaning and a variety of initiatives, but a common point involves addressing the earnings structure. One example is changing certain regular trains to extra trains and operating them in a flexible manner in line with demand. This initiative will be challenging to accomplish, but it will also involve a shift to variable costs. Targeting the reform of the revenue structure, we are advancing digitalization. Customer needs are undergoing a variety of changes, and in this setting it is necessary to focus on carefully determining the needs of each individual. We must implement this approach, not only in the railway business but also in other businesses. In the railway and non-railway businesses, rather than the previous mass marketing, we will work to identify and address new needs through one-to-one marketing. Through the repeated implementation of these types of initiatives, I believe that we will be able to strengthen our ability to address risk and our ability to address change. We are not at the state at which we can disclose detailed target figures, but we will continue to do our utmost moving forward.

Q

How is the Company approaching environmental issues as opportunities?

A

As a result of our experience the coronavirus, we are in the process of transforming from the scheduled, high-volume transportation up till now. New lifestyles and working styles are emerging, and we are also seeing new trends in the flow of people. To facilitate the promotion of usage in line with these trends, we will strive to help make regional cities into cities of affluence and abundance. We believe that there are things that we can do toward that end. The key phrases will be regional decentralization and equalization of usage across rush hour time periods and seasons. If we can leverage fare policy and other measures to encourage people to avoid boarding packed trains, then we can link these initiatives to increased value, both as a business and for society as a whole.

It will be important to take steps to advance initiatives for the development of cities centered on public transportation, such as compact city initiatives.

Our branches have offices for coexistence with local communities, and we will also establish the Regional Revitalization Division at the head office. We will strive to advance city development as well as outings centered on stations. Parts of these initiatives are linked to the environment, and MaaS can also drive progress in that area.

Q

What are the Company's thoughts regarding the enhancement of governance in the future?

A

We recognize that, facing a crisis, for the purpose of increasing speed we must unify management resources in the president, allocate them rapidly, and advance measures on that basis. Accordingly, at the next Ordinary General Meeting of Shareholders we will submit proposals to leave the position of Company Chairman empty and to streamline the Board of Directors by reducing the number of members by two, to 13 members. It will be important to move ahead with a sense of urgency, and accordingly we will separate business execution and supervision while delegating authority to executives. We will continue to consider initiatives regarding the reform of the Board of Directors.

End