

**FY 3/23 2Q Financial Results Briefing, Summary of Question and Answer Session**

**Second-Half Outlook / Full-Year Results Forecasts**

**Q1**

Each segment is within expectations, and there is also concern about the eighth wave of the coronavirus. The Company has not changed the results forecasts at this time. However, the first-half profit exceeded the full-year profit forecast. Is there a reason to expect a loss in the second half? Will costs arise in the fourth quarter, or will the Company consider the results forecast while monitoring the circumstances?

**A1**

We are working to equalize the recording of expenses throughout the year, but there is a tendency for maintenance costs and other costs to increase in the fourth quarter. In addition, looking at revenues, there is concern about the eighth wave, and through the first half, results were in line with expectations. Accordingly, we did not change the results forecasts.

**Inbound**

**Q2**

Inbound demand will increase. Currently, are there positive signs in each business? Also, looking at active initiatives, does the Company have measures and ideas that will make a greater contribution to revenues in comparison with the period before the coronavirus?

**A2**

Currently, hotel occupancy rates have recovered to 80%, and up to 90% for certain hotels. Inbound demand has also recovered, to about 20% to 30% of the level in the period before the coronavirus. In September, compared with the level in the period before the coronavirus, the use of the limited express HARUKA, which connects to Kansai Airport, was in the 10% range. However, in October, it was in the 20% range, and most recently it has increased to near 30%. Overseas tourists have also become a common sight on the streets. The regulations have been abolished, and the door has been opened. Going forward, we will enhance the framework facilitating online reservations for specialized inbound products. Next fall, it will become possible to make reservations one year in advance for tickets that can now only be ordered one month in advance. Railways will offer reservation services that are basically the same as those of airlines. In addition, from November 1, the HARUKA timetable has been completely restored, and it is operating every 30 minutes. Furthermore, we are also developing an app for inbound travelers that will address issues such as lost articles and health management. Going forward, we will continue taking steps to steadily welcome

inbound travelers, including initiatives for which the preparations have already been completed and initiatives that will be introduced into service next year or thereafter.

### **Q3**

Moving forward, the number of people from overseas will increase, and in 2025 the Osaka/Kansai Expo will take place in the Company's area. Is the Company considering the introduction of a so-called open loop, even partially, such as the use of credit cards for touch payments?

### **A3**

Passengers can board the Tokaido Shinkansen and Sanyo Shinkansen with a QR code, but the question of how to handle payment will be an issue going forward. At this point, our assumption is that we will be working with the current service circumstances, but we do consider this to be one of the issues that we face. In regard to credit card touch payment, etc., the issues of fare calculation handling and the reaction speed of ticket-checking equipment have not yet been resolved. In regard to the issue of how to create services that are easy to use for customers from overseas, our stance is to implement solid collaboration in areas where it is possible. However, at this point, whether we will offer that type of service is a separate consideration.

## **Costs**

### **Q4**

In regard to the level of costs next year, will the urgent reductions implemented up to this year be reversed? Also, looking at cost structure reforms, the plan is for reductions of ¥20.0 billion on a non-consolidated basis through this year, but with the future strengthening of these initiatives, to what extent will the Company be able to reduce costs for a single fiscal year on a non-consolidated basis?

### **A4**

In regard to costs next year, there are items that are linked to the recovery in revenue. There are also things for which restrictions will not continue, such as advertising expenses that are necessary to create demand and bonuses when profits recover. Fundamentally, the urgent reductions are something that will not continue for a long time. We will need to steadily implement maintenance and other items that have been postponed. Accordingly, in the formulation of the plan for next year, we will carefully consider whether there are costs that can be reduced.

Cost structure reforms have been expanded to ¥20.0 billion for this year on a non-consolidated basis. There are a variety of options, such as those that are effective with personnel costs and those that are effective with maintenance costs. In particular, for personnel costs we will strive to increase productivity while establishing a variety of frameworks, including from the perspective of securing workers. With safety as our priority, we will work to further enhance safety and productivity while leveraging our technical skills,

such as methods of maintenance and operating that do not require more labor. We are working to implement cost structure reform in the railway business. However, at this point, fuel costs are increasing, and there are also a variety of factors that will increase costs over the medium to long term, such as a carbon tax. We will consider how far we can reduce expenses overall, while absorbing this cost increase pressure. However, in addition to costs, we will also consider how we can leverage opportunities from the perspective of revenues. We believe it will be necessary to improve profitability from the perspectives of both revenues and costs.

## **Price Strategy**

### **Q5**

In regard to enhancing demand forecasting, looking at the acceleration of the timing of the start of reservations for the EX Service, it is difficult to see how that will be linked to yield management. Will busy period fares be set when the Company is able to forecast for busy periods? Or is it possible that busy period fares will be increased ¥500 or ¥600?

### **A5**

There are a variety of tickets, including tickets sold at the regular price, tickets sold online, tickets that are discounted due to advance reservations online, and tickets that are provided on a wholesale basis to travel companies and can be purchased at even lower prices. With reservations being made earlier, it will become possible to see how demand is developing, and on that basis we will conduct yield management by adjusting the number of seats provided. This is what we would like people to understand. Furthermore, by looking at the demand trends from a year earlier, we will be able to run extra trains or increase the number of trains in operation, which will lead to growth in overall earnings. On the other hand, we will be able to forecast areas with limited demand, and accordingly we will be able to take steps to control costs, such as reducing the number of trains. Busy period charges will be increased by a maximum of ¥400, and we will also consider how to determine the difference in pricing of online reservation products, which is not a regular charge. Without limitation to the Shinkansen's fares/charges, we think that perhaps we can flexibly set prices in line with demand for dynamic package types of products.

### **Q6**

In regard to railway fares/charges, the discussions regarding the revision of the total cost calculation method include aspects that are concerning. One approach is that inflation, investments related to future safety, etc., are incorporated into costs. What types of discussions are being held within the Company?

### **A6**

There are a number of discussion points about the total cost calculation method. We are currently in a phase of rapid inflation. Accordingly, we are working to foster discussion to promote the establishment of frameworks to address those types of external factors. On the

other hand, there is a need to look at what types of items are included in costs under the current method, such as the calculation of the operational return rate, and if that calculation method is appropriate for present-day circumstances. There are issues that raise questions about the calculation method. In addition, in regard to future safety investment, a system under which users bear the burden of barrier-free investment is being established, and the Company will use this system. However, going forward there will be an increase in a variety of safety investment, and accordingly the question of what should be reflected in costs, and how it should be reflected, will likely be a topic of discussion.

## **Next Medium-Term Management Plan**

### **Q7**

For the formulation of the next medium-term management plan, initiatives to lower the break-even point and strengthen individual customer marketing have been mentioned in regard to invigorating the railway business and implementing structural reforms in each business. As for these initiatives, will the Company disclose numerical targets and schedules indicating the effects that will be realized as well as the time frame? Also, for new business fields, there are items that will require some time. In these circumstances, will results be seen under the next medium-term management plan? Will the Company gain some time through M&A activities? Is the plan formulation process extending beyond the next plan to the plan after next? Under the current medium-term management plan revision, the target for operating income was ¥140.0 billion. Is it possible that this will be exceeded? With EPS diluted due to the capital increase, how will the Company address shareholders?

### **A7**

It will be necessary to conduct management with a strong awareness that we implemented a capital increase by way of public offering. In regard to the profit level, we will need to first restore it to the level in the period before the coronavirus, and then work to achieve further gains. In regard to the dilution, we are very sorry for the effect on existing shareholders.

Looking at the profit structure in the railway business, the percentage of fixed expenses is very high, and accordingly we need to lower the breakeven point through structural cost reductions. The Company is making favorable progress with the cost reduction plan this year, but currently rising energy prices, etc., are a challenge. In addition, we think that the question of how much we will be able to expand cost reductions will become an important factor in lowering the break-even point. In regard to detailed numerical forecasts, etc., please wait until the announcement of the next medium-term management plan.

As for new business fields, as we take on a variety of challenges, some time will be required until they are developed into pillars of our earnings. At this time, our points of focus will include structural reform and revenue expansion in the railway business, including the Shinkansen. However, through the coronavirus crisis, we think that our greatest issue is changing the proportions of business linked to mobility and businesses not linked to mobility. Along with invigorating the railway business, the business portfolio shift has been positioned as an important theme in the next medium-term business plan, and we will need to allocate the needed resources to address this issue. We have stated that capital expenditure in the next

medium-term plan would be controlled. However, in regard to items that contribute to the business portfolio shift, as we formulate the plan we will take into consideration the implementation of a certain level of investment.

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