

(Translation)

January 31, 2023

West Japan Railway Company

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

### **Results / Full-Year Results Forecasts**

#### **Q1**

How did the results in the three months of the third quarter compare with the plan?

#### **A1**

The government's nationwide travel discount campaign fostered demand, and customer traffic flow became more active. The full-year forecast incorporated our expectation of a trend of recovery with fluctuations up and down, and from that perspective, transportation revenues for the first nine months of the fiscal year exceeded the plan by approximately ¥16.0 billion. In non-railway businesses, results in sales of goods and food services and in the hotel business exceeded expectations. For the third quarter, results were favorable on a Groupwide basis.

#### **Q2**

Railway usage in January was weaker than in December. What is the future outlook? Also, risk factors include not only the eighth wave of the coronavirus but also the weakening of business confidence and consumer sentiment and the reduction of the travel support discount rate. Will it be necessary to take a rigorous look at these factors? Will time be required for a recovery in business demand?

#### **A2**

The future course of the circumstances regarding the coronavirus infection is not known. However, there is a risk of a downtrend in revenues if the coronavirus has a significant influence, as it did previously. Taking this risk into consideration, we have not changed the results forecast. Tourism demand has recovered to a certain extent, but we believe that business demand continues to be influenced by the routine utilization of remote work and by restraint in regard to business trips. Looking at Shinkansen usage for weekdays and holidays, weekdays are lower by a few points. In any case, there is no change to our view that Shinkansen usage will return to

90% of the pre-coronavirus level, and we expect a further recovery in demand when we reach the post-coronavirus period. We will work to enhance the environment in order to enable business customers to use the Shinkansen in a comfortable manner, and we will make approaches to corporate customers. Going forward, we will strive to link these types of initiatives to Shinkansen usage.

### **Q3**

Would you discuss the differences between the expectations at the time of the medium-term management plan revision and the results forecast for this fiscal year?

### **A3**

The two reasons for the differences are the delayed recovery from the coronavirus and costs. When the medium-term management plan was revised, we expected a return to 90% of the pre-coronavirus level from the beginning of the fiscal year, but the recovery was delayed. In addition, there were increases in various cost factors that had not been incorporated into the plan at the time when it was revised. These cost increases are an external factor, and there are items that are difficult to address through management initiatives.

### **Q4**

Why did the Company decide not to change the results forecasts? I understand that in a typical year, there is a tendency for expenses to increase in the fourth quarter. However, in the remainder of the fourth quarter, it looks like maintenance costs and miscellaneous costs will increase substantially year on year. In regard to items that had been delayed to the next fiscal year, has the Company decided to implement them during this fiscal year? Also, would you provide a further explanation of the circumstances in the retail business, which had been consistently profitable but is now turning to a loss in the fourth quarter? Is this a conservative outlook, with a possibility that results will exceed the forecast?

### **A4**

There is a trend for expenses to increase in the fourth quarter. Also, the increase in personnel costs is exceeding the level in the initial plan. However, looking at expenses overall, we think that they are basically in line with expectations. The outlook for transportation revenues is the reason why we decided not to change the results forecast. At the end of December, our mainstay

Shinkansen services had recovered to a point close to the expectation of 90% of the pre-coronavirus level. Nonetheless, 90% has not yet been reached. There is cause for concern about the re-expansion of the coronavirus, and we think there is a certain level of risk that transportation revenues will be weak in the January-March period. The retail business was above expectations, especially in the third quarter. Looking at the Groupwide situation, we think that there is a significant risk of an adverse effect if circumstances in the railway business are weak. Accordingly, we did not change the plan. There are risk factors, but we have a certain level of leeway, and accordingly we expect to be able to achieve the results forecast for the full fiscal year.

## **Inbound**

### **Q5**

Looking at the current circumstances for transportation revenues, the hotel business, etc., to what extent are they influenced by inbound demand?

### **A5**

From the third quarter, inbound demand has been following a recovery trend. Usage on the Haruka limited express has largely returned. Hotel accommodation usage is also increasing, and we are seeing improvement. Due to the relaxation of restrictions on travelers from China, we also expect further expansion in inbound demand going forward. We will continue working to capture demand.

## **Real Estate**

### **Q6**

Sales to investors are favorable. Currently, it is difficult to procure properties. However, to what extent has the Company accumulated real estate assets that will contribute to profits in the future?

### **A6**

In real estate leasing and sale, we are in the asset turnover real estate business. We are allocating properties to sales to investors, centered on the properties that we hold. However, we are also conducting appropriate acquisition of properties for the future. In these ways, we are advancing measures to expand the business.

## **Operating Problems during Snowfall**

### **Q7**

Would you discuss the cause of the recent operating trouble? Also, in regard to future measures, are there factors that will reduce the top line? Will it be necessary to consider cost increases?

### **A7**

With regard to the cause of the operating trouble, we are conducting a multi-faceted review. There were insufficiencies in the method of formulating forecasts and in advance preparations. There were also issues in how we handled customers. We caused significant inconvenience for customers, and we believe it will be important to regain their trust in the future. In the area of costs, as we consider countermeasures, we will implement necessary items as appropriate.

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

### **Q8**

In regard to new business pillars and capital expenditure in the next medium-term business plan, will these initiatives be aligned with existing businesses? Or will capital expenditure be necessary for entirely new areas?

### **A8**

In the coronavirus crisis, we have recognized that our business model is significantly susceptible to the influence of a contraction in mobility. This also includes our non-railway businesses. Under the next medium-term management plan, while maintaining our priority on railway safety, we will work to implement structural reforms for both revenues and expenditures. In addition, we will also work to expand businesses in new fields that are not linked to mobility. Specifically, we are considering such initiatives as external sales of the various technologies that we have cultivated in the railway business, as well as the solutions business operations that are being implemented by Nippon Travel Agency. DX will be necessary in order to expand new business areas. A certain level of capital expenditure will be necessary, including for the invigoration of the railway business.

**Q9**

At the presentation of the results for the first half of the fiscal year, the Company discussed the next medium-term management plan. Over the subsequent three months, what types of discussions have been held?

**A9**

Through dialog with investors/analysts over the past few months, we have received opinions about various matters, such as the importance of a shift to a business portfolio based on specific strategies and of establishing KPIs and disclosing progress. With consideration for these views, we are carefully examining our planning, and we would like to continue to engage in dialog after the announcement of the new medium-term management plan.

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